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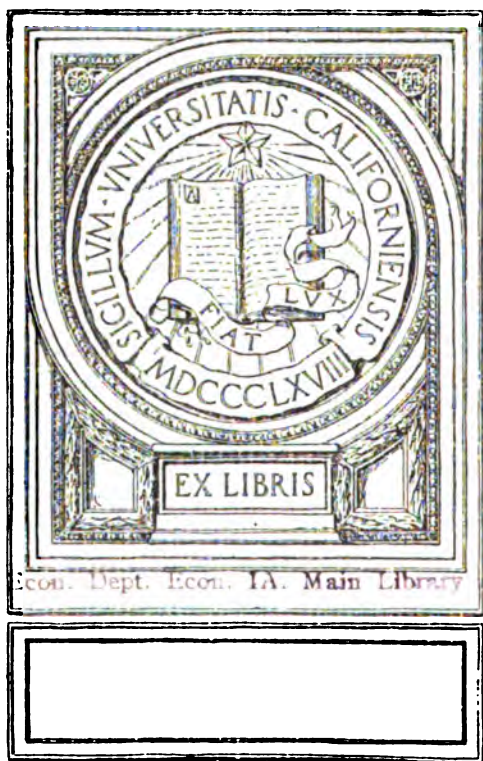
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INTERNATIONAL COMMERCE AND RECONSTRUCTION

**AMERICAN PROBLEMS OF
RECONSTRUCTION**

**A National Symposium on the Eco-
nomic and Financial Aspects.**

Edited by ELISHA M. FRIEDMAN.

**With a Foreword by FRANKLIN K.
LANE, Secretary of the Interior.**

**LABOR AND RECONSTRUC-
TION IN EUROPE**

By ELISHA M. FRIEDMAN.

**With an Introduction by WILLIAM B.
WILSON, Secretary of Labor.**

E. P. DUTTON & COMPANY

INTERNATIONAL COMMERCE AND RECONSTRUCTION

BY

ELISHA M. FRIEDMAN

STATISTICIAN, WAR FINANCE CORPORATION. EDITOR,
"AMERICAN PROBLEMS OF RECONSTRUCTION,"
AUTHOR OF "LABOR AND RECONSTRUCTION IN EUROPE"

WITH A FOREWORD BY

JOSEPH FRENCH JOHNSON

DEAN OF NEW YORK UNIVERSITY
SCHOOL OF COMMERCE



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**TO
MY FRIEND
EUGENE MEYER, JR.**

422887

PREFACE

Beneath the thrilling and spectacular military campaigns of the war, a silent economic process has been changing the character of the commerce of the world. Profound changes were taking place, the analysis and presentation of which have not yet been attempted.

To what extent was trade unrestricted before the war? Was Germany denied the freedom of the seas commercially? Did trade increase all over the world or only in particular routes of trade, and why? How did Europe, under the blockade, meet its demands for goods? Where did the countries of the Far East, of South America, and of Africa obtain their supplies, when the shortage of shipping during the submarine campaign practically isolated them from Europe? How was the transshipment business between the international jobbers of Europe and the overseas countries affected? To what extent did trade between neighboring countries increase? How did the war affect commercial policies? Did nationalism or internationalism grow as a result of the war? What are to be the after-war policies of the belligerents? These are but a few of the questions that have been raised concerning the effects of the war on international commerce.

To trace these changes in detail and to discuss the principles involved is the aim of this book. It constitutes a recital of some of the facts of recent history, essential to the formation of a new perspective, from which American merchants and bankers must view the new problems and responsibilities that have been thrust upon them. More than ever the American business man needs to think internationally, if he would adjust himself to a world so different from the world of 1914, and if he would worthily lend his aid in guiding it through these troubled times.

This book is a sequel to "Labor and Reconstruction in Europe," and like it treats of the situation abroad. Unlike the treatment of the labor problem, however, the present discussion takes a definite stand on the issues presented. It supports a liberal trade policy and favors the consolidation of those commercial gains of war time, which would have accrued to the United States in the course of time, such as the diversification of industry and the lessened dependence upon foreign countries for essentials, like optical glass and dyestuffs, and for ocean transportation.

In order that it might appear in time to be of practical value, the book was written under pressure. It was therefore especially in need of careful reading of manuscript and proof. For this service I am deeply indebted to Dr. A. M. Sakolski, of the Equitable Trust Company of New York, to Dr. Frank R. Rutter and Mr. J. J. Kral of the Department of Commerce, and to Mr. O. Wilson. Mr. Wesley Frost, of the Foreign Trade Adviser's Office in the Department of State, and Mr. O. P. Austin, of the National City Bank of New York, have kindly offered some suggestions. The assistance of Miss Anne G. Cross and Miss Charlotte L. Carmody, librarians of the Department of Commerce, is acknowledged.

THE AUTHOR.

August 5, 1919.

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FOREWORD

BY JOSEPH FRENCH JOHNSON, DEAN OF NEW YORK UNIVERSITY
SCHOOL OF COMMERCE.

America is at a transition stage. Our national estate is no longer undeveloped. Our public domain has practically been distributed to private settlers. Our farms have reached their maximum productivity in cotton, wheat and corn. Our mines have been opened and greatly developed. Our population is rapidly increasing, more rapidly than our domestic food supply. All the forces that made Europe an industrial and exporting region are operative upon us.

We are becoming increasingly a manufacturing nation, drawing to an ever greater extent upon foreign raw materials and in a growing measure supplying finished goods to other parts of the world. Our imports of crude raw materials rose from 22 per cent. of our total imports in 1890 to 35 per cent. in 1913, and our exports of manufactures, ready for consumption, rose from 16 per cent. in 1890 to 31 per cent. in 1913. In the same period our imports of manufactured goods declined relatively. The tendency to industrialization of the United States has been accentuated by the war.

As a nation, our minds and vision must be turned abroad, toward the seas—the lanes of commerce between the parts of the world. The development of foreign markets for American goods before the war had been achieved by our industrial statesmen, the men who think in terms of continents. The conditions resulting from the war have greatly increased our industrial facilities and opened new markets to us that had been closely held by the other nations that arrived first on the ground. Whether we shall retain part of our gains depends on many factors. Primarily, we need men. An increased personnel in foreign trade is a basic prerequisite. Without the human element our foreign trade machinery must lack driving power and initiative.

The conduct of our commerce abroad is a national matter. There is in the United States no mine so remote, no farm so isolated as to be unaffected by the ebb and flow of our foreign trade. Any influence such as this book may exercise that will teach Americans to think in international terms will not only redound to the nation's welfare in the field of commerce, but will add to the prestige of America in international affairs, which, let us hope, will make for greater righteousness among the nations.

INTERNATIONAL COMMERCE AND RECONSTRUCTION

INTERNATIONAL COMMERCE AND RECONSTRUCTION

CHAPTER I

SOME PRINCIPLES OF COMMERCE AND AMERICAN TRADE POLICY

America is at a crucial and plastic stage of development. In the field of trade, more than in any other perhaps, the policy of the Government and the attitude of our merchants can fortify or shatter the anti-Prussian ideals, which our elders have uttered, and our youths died to establish, the standards of justice rather than of power, the principle of service rather than of dominion. It would be a sorry day in the history of America if in the conduct of our commerce we bartered the ideals of a Washington, or a Jefferson, of a Lincoln or a Wilson, for the doctrines of a Frederick the Great, a Kaiser Wilhelm, a Nietzsche, or a Bernhardt.

American ideals at work in the Revolution of 1776 created this federated republic and in the Civil War welded it into an indissoluble union. But these spiritual forces were not selfishly confined to ourselves. Little liberated Cuba is the product of these influences, the fruit of a new kind of political penetration. The returned Boxer indemnity to China represents the spiritual conquest of a willing foreign people. America's rôle in the great war and her attitude at the peace table are not a fragment of a national policy. In an age of world politics they are the fruition of purposes born on this continent in the colonial era, and consciously pursued throughout 143 years of national de-

INTERNATIONAL COMMERCE

velopment. To-day America not only maintains her national position consistently but asks that the other states of the world conform to the same standard; that the nations of the earth choose between Prussian notions and American ideals; between the conscienceless pursuit of a ruthless private purpose or the universal maintenance of a just international policy; between separate selfish suspicious states and a family of frank free peoples. It is in the light of these distinctions that our commercial policy must be conceived.

A. The Principle of Economic Development of Nations

But we are at the parting of roads in a more tangible sense. The United States has passed through a period of development which is characteristic of all nations, indeed is part of universal law. We need but to survey the record of the more mature countries to determine what must be our policy if we would further and not obstruct the inevitable course of our commerce and industry.

Let us recall the first principle of economic exchange. Man is a specialist in production and a universalist in consumption. He produces one thing and consumes, potentially, everything that the rest of the world can offer. No country is so adequately endowed that it produces as many commodities for consumption as all the rest of the world, commodities which require all varieties of climate, all sorts of mineral, plant, and animal resources, all types of mind, all kinds of craft tradition and skill. This is the foundation principle of commerce.

But in realizing its limited potential capacities of production, every country passes through various stages of development. Because of its tremendous implications to us to-day, let us explore this principle. Some 30 years before the theory of biological evolution was made public to the world by Darwin and many more years before the concept of social evolution was deduced therefrom, an economist in the United States called attention to the law of the economic development of countries. This was Friedrich List, at one time professor at the University of Tü-

bingen, and expelled from Germany for his political heresies. The amazing development of Germany in the 40 years since the unification of the Federal states was based upon an application of the theories of List, just as the dismal destinies realized by the German people under the unrestrained and undemocratic leadership of a military caste were due to a defiance of the same theories. He says:

"Four distinct periods may be recognized in the economic development of nations by means of international trade. In the first, home agriculture is fostered by the importation of foreign manufactured goods and the export of agricultural products and raw materials. In the second, home manufactures arise by the side of foreign imports. In the third, home manufactures supply the greater part of the home market. In the fourth, large quantities of home manufactured goods are exported and raw material and agricultural products imported from abroad.

"The highest association of individuals now realized is that of the state, the nation; and the highest imaginable is that of the whole human race.

"An universal republic, that is, an association in which all nations should mutually acknowledge the same legal authority and renounce the right of using force, as between themselves, is realizable only so far as a certain number shall have reached the same, or nearly the same, degree of industry, civilization, political education, and power."

But commerce has more than merely a private or even a national basis. It promotes new demands and new satisfactions for human beings in backward countries. It increases leisure, and to that extent makes possible the higher life for the masses of individuals. It is an agent in the democratization of the world. It multiplies the potential sources of creative culture and consequently broadens its basis.

For a nation, foreign commerce diversifies its industries, not only to the extent that its native resources permit but also to the extent that it imports raw materials for manufacture. It decreases a nation's dependence upon any one other and increases the number of international contacts and consequently the mutual interdependence of the peoples of the world. By reason

of international trade an international community of interest has long been a fait accompli in the economic sense. The political institution, the league of nations, is merely a conscious extension of an existing system under which we have lived since commerce tied the world into an organic unit.

Does history bear out these views of commerce? It does. What differentiates modern from medieval life? In the middle ages the masses were limited in their movement and in their vision. The town or village limits marked off the scope of the activity of the average man. The roads were poor. Traffic was penalized by tolls and restricted by risks to life and property. Trade was confined to the few essentials like iron and salt for the masses and to luxuries like wines and spices for the nobles. Poor communication and little trade meant lack of organized industry, small productivity per capita, low standards of living, and lack of leisure. Immobility spelled universal want.

Modern life presents the opposite picture. Lines of communication circle the globe. Steamships and railroads move man physically around the earth. His limits are not exceeded by the path of the sun. Man speeds his messages over land and under the sea; through wires of copper and spaces of ether. His vision comprehends the earth as completely as the apple he holds in his hand. Travel and communication have been made safe, and the unavoidable risk has been minimized and distributed by insurance. Life has been made more mobile, materially and intellectually. Products and thoughts of one country are shared quickly and widely.

These conditions have been contemporaneous with or rather caused by the development of physical, economic, and political sciences and of the related arts. The compass and the steamship, the locomotive, the telegraph, the cotton gin and the power loom, the bill of exchange and the system of credit, the corporation and the exchanges and bourses for commodities and securities, the modern state and the industrial city, all are mutually interacting influences that with the growth of foreign commerce made life as we know it possible. The mechanics of civilization

may not constitute culture, but they have rendered possible its extension. The culture of a democracy is a by-product of machinery.

The world's trade in the future will be profoundly affected, as it was in the past, by the newly perfected instruments, the wireless telegraph and telephone, the airplane, and the Diesel engine. Likewise, the new economic policies and the new concepts of the state and of international relations will modify both the extent and the character of foreign commerce. The stimulus to industrial and scientific activity, the extension of human knowledge and consequently of man's control over his environment, the development of sympathy and of understanding between nations and races, are the by-products of commerce that surpass in importance the material exchange of things between the merchants of the world.

Why is reiteration of all this necessary? For the reason that there is a school of economists in the United States who hold that to us foreign trade is not important because of our large domestic trade, who maintain that foreign trade should be reduced because there are evils in the conduct of it, because selfishness in commerce has bred wars, because the merchant classes of industrial countries exploit the backward countries. In answer to these statements it is necessary to picture the invigorating effect on international society of the competition between nations, and to point to the development of the race as a result of increasing the scope of human satisfaction by means of trade.

B. History of American Commerce

After considering these elementary principles, let us apply them to the American situation. The history of our commerce differed but little from the history of commerce in other countries. In the century and a decade from 1800 to 1913, the world's commerce grew from \$1,479,000,000 to \$40,420,000,000, or about 27 times. In the same period, the commerce of the United States grew from \$162,000,000 to \$4,279,000,000, also about 27 times.

INTERNATIONAL COMMERCE

GROWTH OF COMMERCE OF THE WORLD.

1700.....	\$120,000,000
1800.....	1,479,000,000
1850.....	4,049,000,000
1900.....	20,105,000,000
1913.....	40,420,000,000

GROWTH OF COMMERCE OF THE UNITED STATES.

Year	Imports	Exports	Total
1800.....	\$91,000,000	\$71,000,000	\$162,000,000
1850.....	172,000,000	144,000,000	316,000,000
1900.....	850,000,000	1,394,000,000	2,244,000,000
1913.....	1,813,000,000	2,466,000,000	4,279,000,000

The history of American foreign trade conforms to the general law of economic development. Imports of crude materials for use in manufacturing increased from about 4 per cent of total imports in 1820 to 35 per cent of total imports in 1913. Imports of manufactures for further use in manufacturing increased from 7 per cent to 19 per cent of the total from 1820 to 1913. Imports of manufactures for consumption decreased from 57 per cent of total imports in 1820 to 23 per cent in 1913. As for foodstuffs, we have steadily decreased our imports with the opening of the West, particularly so in the case of manufactured foodstuffs.

IMPORTS OF THE UNITED STATES.

Year	Crude material for use in mfg.	Mfs. for further use in mfg.	Mfs. for cons.	Crude food-stuffs	Mfd. food-stuffs
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
1820.....	3.64	7.48	56.86	11.15	19.85
1850.....	6.75	15.08	54.93	10.38	12.37
1875.....	14.80	11.89	33.38	16.89	21.23
1900.....	32.50	15.79	23.90	11.52	15.65
1913.....	35.04	19.27	22.51	11.68	10.72

Our record of exports tells a similar story, the development of a backward raw-material country into an industrialized state. Our exports of crude materials for use in manufactures decreased from 60 per cent of the total for the year 1820 to 30 per cent of the total in 1913. On the other hand our manufactures for con-

sumption rose from 6 per cent of the total in 1820 to 32 per cent of the total in 1913. There was similarly an increase in the exports of manufactures for further use in manufacturing from 9 per cent to 17 per cent of the total. Our exports of foodstuffs rose relatively from 1820 to the 90's and declined since then.

EXPORTS OF UNITED STATES.

Year	Crude material for use in mfg.	Mfs. for further use in mfg.	Mfs. for cons.	Crude food-stuffs	Mfd. food-stuffs
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
1820.....	60.46	9.42	5.66	4.79	19.51
1850.....	62.26	4.49	12.72	5.59	14.84
1875.....	41.31	5.50	14.92	15.84	22.09
1900.....	23.73	11.18	24.20	16.48	23.32
1913.....	30.13	16.83	31.97	7.49	13.23

Up to the beginning of the war in 1914 we were following the course of normal economic development of nations; we were becoming industrialized; we were increasing our exports in volume and increasing the percentage of exports of manufactures.

Another phase of the economic development of a country is its decreasing dependence upon any one country, that is, the distribution of its trade over a large group. For instance, Russia, an undeveloped country, is more completely dependent on Germany than is France. As a country matures economically, it diversifies its industries and looks to more countries for its raw materials and seeks more countries from which to buy its finished products. In 1790 our exports were \$20,000,000. Five countries took 96 per cent of them. Great Britain took 47 per cent, France 23 per cent, Spain 10 per cent, Holland 10 per cent, and Portugal 6 per cent. In 1791 our imports were \$25,000,000, of which three countries supplied 82 per cent, Great Britain 61 per cent, France 8 per cent, and Holland 13 per cent. Before the war our dependence on any one country was considerably less. Of our exports in the fiscal year ending June 30, 1914, the United Kingdom took 23 per cent, Germany 15 per cent, Canada 15 per cent, France 7 per cent, Holland 5 per cent, Italy 4 per cent, Cuba 4 per cent, Belgium 3 per cent, Japan,

Argentina, Australia, and Mexico 2 per cent each. Five leading countries took 65 per cent. Similarly, of our imports for the fiscal year ending June 30, 1914, there came from the United Kingdom 15 per cent, Germany 10 per cent, Canada 8 per cent, France 7 per cent, Cuba 7 per cent, British Indies 6 per cent, Japan 6 per cent, Brazil 5 per cent, Mexico 5 per cent, Italy 3 per cent, Belgium 2 per cent, Netherlands 2 per cent, and China 2 per cent. The three leading countries furnished 33 per cent.

C. The Effects of the War, Permanent and Temporary

What were the effects of the war? Some are temporary. We lost the trade of the Teutonic powers and countries cut off by them. We exported munitions of war and products which the other belligerents were temporarily unable to manufacture, because of the devastation of their land or the shortage in man power. As a result of the general shortage of shipping, intensified by submarine activity, trade was diverted out of its pre-war routes and stocks of goods accumulated at points of production that became less accessible during the war, like sugar in Java, and coffee in Brazil. Prices rose and the volume of trade rose accordingly, although the tonnage of goods in the trade of the world fell. With the cessation of hostilities these factors became inoperative in part. After the conclusion of peace they will probably be largely eliminated. But there have been some permanent changes as well. Chiefly, these are such as would ultimately have come about after the lapse of a long time. As a result of the shortage of commodities imported from Germany before the war, new industries were established, notably the manufacture of dyes, nitrates, and heavy chemicals, optical glass, scientific instruments, toys, and related goods. Not only in the United States, but also in Brazil, Japan, India, Australia, the establishment of local industries was stimulated by the shortage of imported goods. The process of the decentralization of the industry of the world was accelerated. Like a bomb, the war split German foreign trade into fragments.

The centralization of a great group of so-called essential or key industries in Germany has forever been destroyed. Tariffs, and in some countries anti-alien laws, will effectually consolidate the industrial gains of the war. Then, again, the shortage of shipping compelled the rerouting of the trade of the world. Courses which became temporarily expedient during the war were found to be permanently more efficient. Most of the transshipment trade between the United States and the Far East or South America was routed via London, Hamburg, and Rotterdam. Direct lines have since been established. We now import bar tin direct from the Far East and we have begun to smelt tin ore instead of buying all the metal from the countries of Europe after the bulky ore had been lugged three-quarters of the way round the globe. Direct trade in wool, rubber, tea, and minerals was developed. The following table tells the story strikingly:

FOREIGN TRADE OF UNITED STATES.

[Figures in million dollars, 000,000 omitted, covering fiscal years ending June 30.]

Continents and countries	Imports		Exports	
	1914	1918	1914	1918
<i>Continents</i>				
Europe.....	896	412	1486	3732
North America.....	427	918	529	1236
South America.....	223	567	125	315
Asia and Oceania....	329	973	197	582
Africa.....	19	76	28	54
Total.....	1894	2946	2365	5919
<i>Countries</i>				
Germany.....	190	....	345	....
Dutch East Indies...	5	80	4	20
Canada.....	161	434	345	779
Japan.....	107	285	51	268
Argentina.....	45	196	45	109

Finally, our trade balance has changed probably permanently. Before the war our excess of exports was about \$500,000,000, which was balanced off by means of various items we owed our customers or sent abroad, as interest on loans, shipping charges, insurance and banking fees, expenditure of Americans abroad, and remittances by European residents in the United States.

During the period from July 1, 1914, to Dec. 30, 1918, or roughly, the period of the war, our excess of exports amounted to about \$12,000,000,000.

VOLUME OF FOREIGN TRADE OF UNITED STATES.

[Figures in million dollars, 000,000 omitted.]

Fiscal years	Imports	Exports	Excess of exports
1911.....	1,527	2,049	522
1912.....	1,653	2,204	551
1913.....	1,813	2,466	653
1914.....	1,894	2,365	471
Total July, 1910-June, 1914.....	6,887	9,084	2,197
Average per year.....	1,722	2,271	549
1915.....	1,674	2,769	1,094
1916.....	2,198	4,333	2,136
1917.....	2,659	6,290	3,631
1918.....	2,946	5,919	2,973
July-December, 1918.....	1,485	3,175	1,690
Total July, 1914-December, 1918.	10,962	22,486	11,524
Average per year.....	2,436	4,997	2,562

In payment for this excess of exports from the United States during the war the European belligerents returned to the United States about \$2,000,000,000 worth of our securities, shipped \$1,000,000,000 in gold, borrowed in the open market about \$1,000,000,000, and to the end of 1918 received United States Government advances of about \$8,000,000,000.

There can be no return to pre-war conditions. Instead of owing Europe about \$125,000,000 annually in interest, she will owe us about \$500,000,000. Our debt for shipping charges will likewise be reduced. On August 1, 1914, we had, according to Mr. Hurley's recent report to the U. S. Shipping Board, 2,700,000 gross tons of shipping and on November 1, 1918, about 6,100,000 gross tons, and if our program goes through we shall have a fleet of 20,000,000 tons, ample to absorb all the shipping charges we had been paying to Europe. Again, our banking fees were paid to European bankers, with whose bills we financed our exports. These will now be paid largely to our own bankers. Thanks to the efforts of the Federal Reserve Board, Amer-

ican acceptances grew from nothing in February, 1915, to over \$300,000,000 in February, 1919, of which about \$200,000,000 represented foreign transactions.

Finally, we expanded our industrial facilities. Our iron production rose from 30,000,000 tons in 1913 to 42,000,000 tons in 1918. Our refinery copper output rose from 1,600,000,000 pounds in 1913 to 2,400,000,000 pounds in 1918. Our mining and manufacturing capacity increased far beyond our domestic requirements. We must either export our surplus or operate our industries at subnormal output and raise the cost of production for domestic needs, until our own requirements catch up with our production. The war thrust responsibilities upon us which we met. The peace finds us at a stage of economic development that might have taken us a generation, perhaps a half century, to attain.

In order to sell abroad we shall have to invest in foreign obligations. For the next few years at least we shall have large credits due us for interest from our allies on past loans, and at the same time an excess of exports of materials for the rehabilitation of Europe. However, we cannot continue indefinitely to invest unless we balance the interest due us from our debtors by an excess of imports. This condition characterized the trade of Great Britain, France, and Germany before the war. When Europe is restored to normal conditions the nature of our balance of trade and the extent of our investments abroad will be determined, among other factors, by relative wages and cost of production in the United States and elsewhere, the relative demand for capital, the standard of living, the prevalence of thrift, and the rate of interest.

D. The Prospect in International Commerce

Before touching on questions of policy, let us gauge the prospect before us and some of the difficulties. If past experience be any guide, we may expect a quickening of the currents of commerce after this war. Trade between the belligerents grew faster after the peace following the Franco-Prussian, Spanish-American,

and Russo-Japanese wars. Human thought and activity should be quickened by the war. Contact between men, between nations, between races stimulates them to rise to new planes of effort. As the Crusades brought on the Renaissance and the modern age, who dares predict what new life the crusade of 1914-1918 may stimulate? Senegalese, Kaffirs, Hindus, Chinese, Australians, Canadians, Americans, all met in a great common cause with the older European peoples on the fields of France. Millions from all the continents and from distant lands will carry back to their homes new economic wants and new intellectual concepts. Africa, as large as Europe and North America combined, has one-tenth the railroad mileage of the United States. In Asia are hundreds of millions, whom the mechanics of western civilization will convert into a new world of producers and consumers on the Occidental scale of living. In their present state they are restricted in their wants, and therefore in their imports. They live on a low scale, and as producers are a menace to the western democracies. The awakening of Asia will mean greater productivity, higher wages, more wants, increased consumption, more international commerce, greater leisure, and a higher life for the Oriental. The prospect before us is a growth in mobility and influence of eastern civilization, and an increase in the range of human power and richness of national culture. Wireless, airplane, the oil-burning ship, may extend the area of civilization, in its mechanical and consequently in its cultural aspect. They will create new centers of industry and mark out new lanes of trade.

In the political sphere, the development of some kind of a league of nations is bound to favor the further development of commerce. It will diminish economic danger and risks, the universal barrier to commerce. A league of nations is indeed a form of international political insurance, whose premiums are lower than the cost of national self-insurance under the old régime. Some fear a revival of a narrow economic nationalism. However, the idea of a boycott of Germany by the world has been rejected by British and French merchants, economists, and statesmen. It is true that the nations of the world have as a re-

sult of the war become aware of much needless dependence upon Germany for so-called "key" industries, which they are bent on establishing and conducting themselves. However, the diversification of the industries of a country does not decrease the volume of commerce. It merely lessens the dependence of one country upon any other particular country. The great powers with their diversified manufactures trade more heavily with each other than with the backward countries producing raw materials, although they are dependent for a smaller percentage of their trade upon any one country than are the undeveloped countries.

As the great experiment progresses, the league of nations should be able to aid in removing many hindrances to commerce. In the purely mechanical phases, the development of a uniform, world-wide system of weights, measures, and currency will stimulate international trade considerably. Our meaninglessly diverse standards of weights, measures, and currency hark back to an immobile civilization which was characterized by a parochial self-sufficiency, both in commerce and in culture. The enormous wastes now involved in the use of different standards may perhaps be conceived if calendars were made as numerous. What a social waste if the double-dated references to the Russian calendar had to be used for all countries. Our time relations with other countries would be as confusing and as intricate as our present space and value relations are.

The metric system has the advantages of our decimal currency. The need for converting ounces, pounds, quarts, pecks, bushels, and tons into each other in domestic trade, and into the simpler metric units in the myriad operations in foreign trade constitutes an inconceivable waste of time and energy, which capitalized over a period of years would represent a sum far greater than the initial cost of the change to the metric system. The International High Commission has endorsed the metric system. Its adoption may be the price which the United States will have to pay to keep and develop Latin-American trade in competition with Germany, France, Italy, Spain, and the twenty-two other members of the Metric Union. Despite the failure of the majority of the Balfour Committee on Commercial and

Financial Policy After the War to recommend the adoption of the metric system in Great Britain, the conservative British merchant, aroused to a new point of view by the war, may turn to it after weighing the deciding influences in international trade competition after the war.

After its adoption, a uniform system of weights and measures might lead to further unification of trade forms and methods, which is needed to bring the varied, provincial organization and machinery of commerce into conformity with its uniform functioning and its international spirit. A standard bill of lading, consular invoice, customs classification, and tariff administration would not only perfect the machinery of international trade, but would hasten the formation of a closer union of the nations. The present diversity of forms is an anachronism in these days of rapid communication of thought, a vestige of a past age.

In the field of currency, unification is less difficult to achieve and promises an even greater stimulation to the trade of the world. The Latin unit, equivalent to \$0.1930, includes the French, Swiss, and Belgian franc, the Italian lira, the Spanish peseta, the Roumanian leu, the Serbian dinar, the Finnish mark, the Greek drachma, and the Venezuelan bolivar. The International High Commission is urging the adoption of the centavo, equivalent to \$0.20, as the unit of the Latin-American currency. "Gold currency coined on the basis of .900 fine, and weighing 0.33437 gram, the American franc, could be used freely. If all the American nations would coin gold of the same fineness and based on the same unit of weight, the coins of one nation could circulate in the others, the expensive process of remelting and recoinage would be eliminated, and financial transactions between all these countries would be greatly facilitated. The adoption of this new standard will form a very helpful factor in developing trade relations and effecting easy settlements between the respective countries."¹

¹ Pages 5, 7 and 8 of the Memoranda to Accompany Draft of Treaty for the Establishment of an International Gold Clearance Fund submitted to the International High Commission in April, 1916, by Paul M. Warburg, Vice-Governor of the Federal Reserve Board, and Archibald Kains, Governor of the Federal Reserve Bank of San Francisco.

E. The Difficulties to Overcome

The prospect in international commerce will be conditioned by several difficulties. The problems of credit and of a trade policy will have to be solved. Then, there is threatening danger of the psychology of victory. Let us take them up in inverse order.

(i) The Psychology of Victory

Vanquished Greece conquered Rome. Will chastised Germany do likewise? The victors of a war have often sowed the seeds of their ultimate defeat. Thus Germany in 1871. Let us beware of repeating the folly. The United States and its allies and associates must exercise a wise restraint, not only in the terms of peace, but thereafter. We and our allies dare not, except at our peril, build our foreign trade on the questionable expedients of pre-war Germany. They are well known; dumping and temporary underselling to throttle foreign competition, economic penetration of other countries in order to dodge measures designed by them to protect their own native industry against German competition, imitation of competitors' goods, secret rebates, preferential rates of transportation, export bounties, bonuses to dumpers, all the arts of deception to secure advantage, must be ruled out.² We dare not tolerate in international commerce the unethical practices which we purged from our interstate commerce after a decade of prosecution. The test of a sound policy is its applicability by all. If all nations dumped, if all gave secret rebates on transportation, if all extorted special tariff concessions, the advantages would largely vanish. They accrue only when a single nation or a few nations make those practices part of a deliberate trade policy. Our actions must be based on an ethical and practical concept, the golden rule; to live and let live; or the philosophic dictum of Immanuel Kant, the categorical imperative, so to live that our action may be a guide to universal conduct. The diffused but ardent wish of enlightened

² Henri Hauser—"Germany's Commercial Grip on the World."

mankind must be organized into an effective demand that questionable trade practices be universally discontinued.

However, not alone will the pre-war trade policies call for wise consideration. The war psychology has conjured up the commercial hymn of hate as abominable as the verses of Ernst Lissauer, and unworthy of generous or just victors. The boycott, the five-ply tariff which would discriminate against the goods of former enemies and grant special concessions in trade to former allies, the restriction on the export of raw materials to Germany, all are uneconomic proposals which must break down in the application. To deport all Germans to Mars or perhaps some other planet preferably, to send them where Ludendorff asked the Americans to go, or to wipe Germany off the map might effect a clean, decisive, permanent solution for the commercial chauvinist. But so long as there remain on this planet the soil and resources of the new Germany, and seventy million highly gifted, even if misled, human beings,^{*} it will be madness for any

^{*}The distinction between the people and the rulers of Germany was made by President Wilson in his Flag Day address in 1917. "We are vaguely conscious that we are fighting their cause as they will some day see it, as well as our own." That the distinction was a real one is evident from an article on "The Twilight of Autocracy," which appeared October 20, 1917, in one of the leading German magazines, the *Europäische Staats und Wirtschafts Zeitung*, from the pen of Professor Hugo Preuss, who subsequently became the author of the Constitution of the present German republic. "A system of government which is no longer capable of living but which also cannot die because no successor capable of ruling has arisen—this is the position of Germany in the present historically decisive moment. This is the position of a people which even now is giving evidence of its gigantic power to an astonishing degree. Nations in other periods of history have risen to leadership in the family of nations with even a fraction of this power. But for the German people it has prepared the fate of an Ishmael among the nations—his hand against every man and every man's hand against him. In this way does the might of a great people devoid of leadership work itself out. It is now using up its gigantic powers in defending itself against the enemy of the entire world. Yet this expenditure of energy without parallel is serving no political purpose, for Germany lacks political leadership, external as well as internal. The war of the nations will not be ended by the artifices of diplomats. Only the political leaders of the peoples are capable of doing this. Where are they in Germany? How can they arise for our people? Leadership by schooled profes-

country to reject the German people as consumers and purchasers of non-German merchandise, or to attempt to dispense with those goods which with the peculiar combination of physical resources of Germany and mental traits of the German people can be most economically produced in Germany. The world will hasten its recovery if it removes all hindrances to the exchange of goods and services as before the war. The organic life of the world cannot freely be resumed so long as one limb is cut off, or the circulation in it dammed back. The plans for extensive tariff restrictions and anti-alien laws are a menace to the peace of the world.

One of the great lessons of the war is that the most important asset of a nation is its human resources. The revival of France depends not on how much more land she can acquire, but on how she can increase her population. Earth hunger may be satisfied at the expense of the national budget. For instance, Kamerun and Togoland were a fiscal burden to Germany. Italy's aspiration in the Adriatic may cost her dear. The support of foreign possessions is often the price of national vanity.

But even when colonies do not cause a financial loss to the mother country, their raw materials cannot be utilized by her alone. Raw materials move to the dense centers of population. Indian hemp, oil seeds, and hides moved to Germany, the United States, and Japan, as well as to Great Britain. Goods flow more readily than human beings migrate. The latter are bound by social ties to a fixed locus. While migration did to some extent move people from densely settled lands of Europe to North and South America, the centers of industry arose not at the source of production of raw materials, but at the points of aggregation of dense populations. Changes in the relative density of population may become one of the causes of war. The régime of peace on this planet will require that differences in the pressure of population be equalized, by the shifting of ownership of sionals excludes genuine popular leadership. Only the political leaders of the people can guide them who at great decisive moments adhere to party regardless of any autocratic system which sets up a fiction that it is superior to all parties. The creation of genuine political leadership is the ultimate problem of the world war."

territories, the migration of peoples, or the development of industry. If, in cases of unstable economic equilibrium, land cannot be transferred from country to country, men must move or goods must flow.

Restrictions on migration means increasing disparity in the density of population, in standards of living, in wages and the cost of production. If, in addition, the restriction on the exports of raw materials or tariffs on imports of finished goods prevent the free flow of the products of human labor, international strain cannot be avoided. If the yellow race is to remain out of the white man's lands—and biologically it appears desirable to prevent fusion and to preserve the distinctive characters of each—the flow of raw materials must be unrestricted and the movement of finished goods not too greatly obstructed. Perhaps the diplomats may learn this elementary lesson in economics before the oft-predicted great war between the white and the yellow races comes to pass.⁴

(ii) *Depreciated Exchange*

The problem of foreign exchange is less puzzling than it seems. Few of our merchants are old enough to have experienced the days from 1862 to 1879, when paper dollars were not convertible into gold. But all of us can learn of the experience of France under the assignats and the United States under irredeemable paper. Depreciation arises from three factors: First, the trade balance determines the supply of and demand for bills and therefore the exchange rate. This is usually a temporary and variable element except in the cases of young raw-material countries, which

⁴In this connection it may be of interest to cite the address of Marquis Okuma, formerly Premier of Japan, before the Japan Civilization Society. "It is a blot on justice that the whites who constitute less than one-third of the population of the world assume its control. . . . The Japanese are considerably inferior to westerners in wealth, physical strength, and intellectual power, but they must show no hesitation in acquiring whatever is required to make them the equal of others. If efforts are made in this direction it is hoped that no difficulty will be experienced in surpassing the arrogant westerners and in bringing them to their knees." (*Correspondence Associated Press*, Yokohama, June 10, 1910.)

continuously import more than they export. Their exchange rate would therefore be continually depressed. They secure relief by funding their debt into long-term loans. As a result of foreign investments the country becomes developed, exports increase, and the volume of exports and imports strike a new balance. Incidentally, the devastated countries of Europe will for a long time be in an analogous position.

Secondly, from a fiscal point of view, the relation between the note issues and the gold reserve of the Government determines the extent of the depreciation of paper money. This was the case with most of the European belligerents during the war, notably Austria and Italy. So long as there is a great and continuous excess of imports over exports and a low gold reserve or an excess of paper currency, it is folly for any legislator to attempt to stabilize exchange rates, which are merely financial indicators. The treatment of symptoms will not cure an unsound condition.

Thirdly, intangible and non-economic considerations regulate the rate of exchange. During the war German exchange sank lower than the French on the Swiss market, because of moral considerations and of the faith of the neutrals in the ultimate triumph of the Allies.

Now during the war the prime consideration governing America's action was to help win the victory. For this purpose we advanced credits to the Allies to the extent of about \$10,000,000,000. We tried to keep their exchanges near par so as not to check the flow of munitions to the battle front. There were substantial reasons for pegging exchange during the war. But the operation was not feasible in peace times. A depreciated exchange tends to correct itself for it increases the cost of imports and decreases the cost of exports. To maintain in peace times an artificial value for foreign currency would therefore do an ill turn to the countries involved. It would prevent automatic correction of values in commerce. Until inflation is reduced and gold flows freely again, the exchanges will fall to a new point of equilibrium about which fluctuations will take place as they do around normal parity. Under a paper régime there are

also "gold points" in exchange to control the supply and demand. When exchange rates fall so that depreciation in exchange is greater than premium on gold or rather discount on paper, gold will flow into the country. The points in gold parity are shifted from normal and measure the extent of depreciation of the currency and not the relation of supply and demand in the market for bills of exchange. The "gold points," whether at par or below par, are determined by fiscal considerations. The variations from "gold points," normal or subnormal, are determined by commercial considerations.⁵

(iii) *Credit for Commerce*

There is a difficulty, which the United States will face. Our excess of exports of about \$500,000,000 before the war was offset by invisible debits consisting of interest and dividends on American securities held in Europe, foreign charges for ship freights and marine insurance, fees for international commercial banking paid chiefly to Great Britain, expenses of Americans touring abroad, and remittances of our immigrants to their friends and families in Europe. Our invisible pre-war debit balance of \$500,000,000 has been converted to a credit balance of about \$200,000,000; as an offset we may have to import about \$200,000,000 more than we export. This we can do by increasing imports above the pre-war figure or curtailing exports below the pre-war figure to the extent of \$700,000,000. The achievement of this feat is quite questionable. Another counterpoise to this invisible credit balance of \$200,000,000 a year would be created by an advance of credits to or by investments in foreign countries. At the time it is contracted a loan constitutes a debit of the lender and a credit of the borrower. At the time it is paid a loan is a credit of the lender and a debit of the borrower. The loans we make need not be confined to our customers, or our allies, to any power, or any group of powers, or to any continent. A nation's exchange rate is determined by the sum total of the

⁵International Trade Under Depreciated Paper—*Quarterly Journal of Economics*. F. W. Taussig, May, 1917; A Rejoinder, Jacob H. Hollander, August, 1918.

supply of bills of exchange against it and of the demand for bills, regardless of the country offering or demanding the bills on it. By means of arbitrage, temporary inequalities in the rate of exchange of any one country on any two markets is eliminated. The level of exchange of a country is therefore relatively uniform on all the markets of the world. In brief, to maintain equilibrium in our foreign trade we must either sell less or buy or lend more.

(F) *The Immediate Need—Extension of Credits to Exporters*

(i) *Europe's Need for Credit*

Europe in part is devastated and everywhere is short of goods. The war-ravaged countries need machinery. But even the neutrals need raw materials which during the war the needs of the belligerents and the blockading of Germany prevented them from obtaining. Without food and raw materials Europe must fall into chaos, which may react on us. Europe must have our goods, and to get them she needs our credit.

But for purely selfish reasons we must lend. The alternative before the United States is either to curtail its excess of exports or to lend more. However, the choice of courses is purely theoretical. We cannot to any appreciable degree sell less. Extensions to plants have been built during the war, our industrial capacity has increased, new sources of labor have been tapped, and the country adjusted in an organic way to a new industrial situation. To curtail our foreign sales would mean stagnation of industry, and the paralysis of labor. We cannot buy more at present, for Europe has less to sell now than before the war. The only course open to us is to lend. The United States for its own sake must advance credit in order to move its goods. The need for credit to Europe is inevitable and must be met.

(ii) *Supply of Credit*

The supply of credit may be classified into two types, long-term and short-term. The neutrals, like Switzerland, and bel-

ligerents not devastated by the war, like Great Britain and Japan, will not need long-term credit. The currents of trade and industry have not been interrupted and the usual short-term facilities should cover most of their future needs. Such long-term credits as they will apply for will probably be used to fund short-term paper floated during the war to pay for the excess of imports.

(a) Short-term Credit

The machinery for supplying short-term credit to our exporters exists. There is no need for the proposed Government Foreign Trade Bank. The establishment of the Federal Reserve System in 1914 was singularly fortunate. It removed the legal disability imposed upon our banks which did not permit them to accept drafts drawn upon them. The member banks of the Federal Reserve System had on March 4, 1919, \$451,000,000 of acceptance liabilities, which constituted only 35.4 per cent of their capital and surplus. The additional available acceptance liabilities of member banks would be over \$800,000,000, a sum which, if turned over two to four times a year, is likely to be ample to cover most of our needs for short-term credit for exporters. For comparison, let it be noted that the acceptance liabilities of eighteen leading joint-stock banks in England were on June 30, 1914, and December 31, 1918, about \$175,000,000 and \$250,000,000 and constituted 52.6 and 61.4 per cent of their capital, on the respective dates. The three leading commercial banks of France had on May 31, 1914, acceptance liabilities of about \$80,000,000, which constituted 42.0 per cent of their capital and surplus. The eight largest German credit banks had on December 31, 1913, acceptance liabilities of about \$325,000,000, which constituted 89 per cent of their capital and surplus.⁶

However, should a scarcity of short-term credit for exporters arise, we can create hitherto untapped reserves by the establishment of discount houses. Less conservative bankers believe that the extension of the limit of acceptance liabilities of mem-

⁶ *Federal Reserve Bulletin*, June, 1919, page 561.

ber banks of the Federal Reserve System from 100 per cent of the capital and surplus to 200 per cent may accomplish the same result. However, this proposal involves a danger of over-expansion, for in some cases deposit liabilities are already ten times the capital and surplus. It would be questionable wisdom to superimpose foreign-credit risks on top of such an extended credit structure.

The discount houses under the law would not be permitted to have any demand deposit liabilities but would accept drafts drawn upon them up to several times the capital and surplus, so that a discount company with a capital of \$10,000,000 would be empowered to accept up to \$60,000,000 of foreign drafts. To a great extent they would relieve the banks of deposit of the risks of too heavy commitments on account of foreign acceptance liabilities in addition to their ordinary commercial risks.

(b) Long-term Credit

However, six months' credit, which is the limit under the terms of the Federal Reserve Act, would even with a renewal, hardly provide for the needs of countries in which factories and even cities will have to be rebuilt and re-equipped, to say nothing of railroads and bridges. To establish the mechanics of civilized life, whether it be in virgin Argentina or in ravaged France, requires long-term credit.

(1) Government Advances

During the war the United States Government advanced credits to other governments to the extent of about \$10,000,000,000. These advances, however, must cease with the proclamation of peace. The sentiment in the United States is averse to lending by the Government. Private bankers, the Federal Reserve Board, and Congress are opposed to the policy. Mr. O. T. Crosby, formerly Assistant Secretary of the Treasury, and chief of the Inter-Ally Commission on Purchases in Paris, warned against further government advances. Risks are less carefully

scrutinized in contracting loans between Governments than between private parties, too much reliance is based on the taxing power, and there is danger of international complication when interest or principal is to be collected from weak or unwilling debtors. Furthermore, French and Italian statesmen are hoping that advances made by the United States Government may be canceled. Any increase in these sums would add to the urgency of such pleas.

Yet Canada has authorized the extension of \$25,000,000 of credit to Roumania to be devoted to purchases in Canada of food, raw materials, and manufactured goods in the ratio, 20 per cent, 20 per cent, and 60 per cent. A credit of \$25,000,000 was also extended to Greece. Apparently the Canadian Government feels that it is the duty neither of the banker nor of the exporter, but of the whole people, to see that the flow of exports does not cease. Strange to say, Canada borrowed \$75,000,000 in the United States after it had opened credits to Roumania and Greece. This procedure on the part of Canada is analogous to the pre-war German practice of discounting with English banks the short-term credit of foreign importers of German goods which bills the British banks refused to buy when offered by British exporters themselves.⁷

(2) *Indirect Government Aid—The War Finance Corporation*

The United States has undertaken to aid the exporter indirectly through the War Finance Corporation.

The act creating the War Finance Corporation was amended to read:

"(a) That the Corporation shall be empowered and authorized, in order to promote commerce with foreign nations through the extension of credits, to make advances * * * for periods not exceeding five years * * *.

"(1) To any person, firm, corporation, or association engaged in the business of the United States of exporting therefrom domestic products to foreign countries, if such person, firm, corpora-

⁷ Cp. Henri Hauser, "Germany's Commercial Grip on the World."

tion, or association is, in the opinion of the board of directors of the Corporation, unable to obtain funds upon reasonable terms through banking channels. Any such advance shall be made only for the purpose of assisting in the exportation of such products, * * *

"(2) To any bank, banker, or trust company in the United States which * * * makes an advance to any such person, firm, corporation, or association for the purpose of assisting in the exportation of such products.

"(b) The aggregate of the advances made by the Corporation under this section remaining unpaid shall never at any time exceed the sum of \$1,000,000,000.

"(c) * * * Any such advance made by the Corporation shall be made upon the promissory note or notes of the borrower, with full and adequate security in each instance by indorsement, guaranty, or otherwise. The Corporation shall retain power to require additional security at any time. The Corporation in its discretion may upon like security extend the time of payment of any such advance through renewals, the substitution of new obligations, or otherwise, but the time for the payment of any such advance shall not be extended beyond five years from the date on which it was originally made."

However, the difficulty inherent in the Act is that while the country as a whole benefits by the export of goods, the burden of the present unusual risk is placed entirely upon the exporter. Under the circumstances, many an exporter has refused to play the part of Uriah the Hittite for the industrial community.

(3) *Private Means*

The fundamental difficulty inherent in the financing of foreign trade by the Government is that it must lead to further inflation. The \$10,000,000,000 of Government advances were made out of the proceeds of Liberty Loans and Victory notes, the holders of which have obtained bank credit with facility, which in turn may be made the basis of an issue of paper money. Similarly, the War Finance Corporation received its \$500,000,000 of capital from Liberty Loan funds. Financing of exports through private channels can be accomplished best

through savings. In other words, the alternatives of war financing, inflation versus savings, face us again during the transition. Government financing of foreign trade means inflation. Private financing of foreign trade involves saving by investors.

To maintain our excess of exports at the present rate the United States must save \$3,000,000,000 more per year. Is this possible? During the year ending May 31, 1919, the United States raised \$15,500,000,000 in the third, fourth, and fifth war loans. True, much of it, about \$4,000,000,000, is being carried by the banks, but well over \$3,000,000,000 reached the ultimate investor and was thoroughly digested. If the American investor is educated, as he was during the war, the need for financing our foreign commerce will be generally realized and it should be possible to raise the necessary sum through the savings of the people.

The Federal Reserve Board has recommended that member banks be permitted to invest five per cent of their capital and surplus in subsidiary corporations engaged in the financing of foreign trade. These companies might buy foreign securities, or float them here, as the Lackawanna Steel 5's and many American railroad bonds were issued in Europe, or as Lever Brothers of Great Britain floated a bond issue in the Netherlands early in the war. Then again, Europe's holdings of neutral securities might be liquidated in the United States. Or else investment trusts might be established.^{7a} These organizations invest in securities, and issue their own obligations against their holdings.

The margin of safety for the holder of the bonds of an investment trust is not only the underlying security, but also the capital stock of the investment trust itself. In the field of long-term credit, the investment trust occupies somewhat an analogous position to the discount company in the field of short-term

^{7a} Mr. Warburg recommended this course in December, 1918, at the Atlantic City convention of the Emergency and Reconstruction Congress of the War Service Committees of American Industries.

credit, for the latter also has assets of its own to protect the purchaser of its obligations.

The underlying security of the investment trust may be either a "government," an industrial, or the pledged security of a third country. The investment trust may assume one of a number of forms in the United States. The Webb-Pomerene law which permits exporters to unite in their foreign selling campaigns, may make a commodity grouping a favored type. In this instance, the exporting manufacturers may form a company with a paid-in capital stock, and export their goods, receiving in payment the bonds or notes of foreign mills, or of a foreign government. These may be made the basis of a bond issue of the exporting corporation, which would thus serve as an investment trust. In the case of newly-formed states, whose industries have not yet become firmly established, it might be necessary that the notes or bonds of the native companies be guaranteed or endorsed by their Government or that the credit be extended direct to the Government which in turn would dole it out to private borrowers and thus assume the commercial risk.

The second type of investment trust might specialize not in the financing of exports of any commodity or group of commodities, but in the financing of a given region. There are both types in Great Britain. Some of the British investment trusts specialize in public utilities, or in the electrical industries, some confine their investments to South American countries, and some to the Far East. Most of them, however, do diversify their risks, as an essential feature of safety. It might be advisable that American investment trusts specialize in particular countries, as Italy, Germany, Poland, or Czecho-Slovakia. An advantage of this type would be that former nationals of these countries residing in the United States might become investors more readily than otherwise. Furthermore, the specialization of an investment trust in the securities of one country would lead to a concentration of accurate credit information and would facilitate the investigation of new propositions and the follow-up of old ones.

(c) *The Essentials of an Acceptable Foreign Security*

If advances are to be made to fiscally weak countries or to industries already under heavy taxation charges, some order of priority of lien will have to be worked out in order to assure the safety of interest and principal of the new loan as compared with the old. The analogies of private finance hold in this case, for the principles of finance are essentially similar for private corporations and for sovereign states. A financially embarrassed company that has good prospects may secure credit by the issue temporarily of receiver's certificates having a prior lien on earnings or by a reorganization and scaling down of outstanding securities. If new loans to the weak countries of Europe are to be liens, on a par with old internal loans, funds for Europe will be difficult to obtain. To maintain credit abroad, European countries will have to give priority of payment of both principal and interest to new money over old external loans and to the latter over old internal loans. Indeed, the old internal loans may have to be scaled down in interest or refunded by a new issue bearing a lower rate. Either by a capital levy or by a reduction in interest, the weak countries of Europe may have to effect a composition with their creditors on their internal loans, in this case their own nationals, chiefly. Countries already under a heavy burden of taxation may have difficulty in meeting new interest charges, and it is only a matter of financial prudence that European countries sustain the credit of their governments or of their citizens and private corporations by assuring foreign lenders that fiscal demands above some fixed limit will not take precedence over reconstruction loans by foreign investors.

The rate of interest on loans to foreign governments or industries, as well as on collateral securities issued by the investment trusts will have to be competitive with domestic rates. Europe cannot expect to borrow here at 4 per cent when prime American industrial bonds are yielding 6 per cent. To prevent the demand for credit at home and abroad from bidding up the market too greatly, perhaps some rationing of the supply of capital may be necessary as it was during the war.

The question of marketability of collateral trust securities based on foreign loans should not be unsolvable. The need for extending credit to Europe for the sake of maintaining our own industry is so great as to warrant some large and well-conceived publicity such as floated our Liberty Loans.

G. The Reorganization of International Credit

The methods outlined above of relieving the shortage of credit so as to finance exports to Europe is based upon customary arrangements between two countries. However, the question has been approached as one in international coöperation. It has been held in many quarters that some such comprehensive plan would be necessary.

(i) The Effects of the War

Before presenting the various proposals it might be well to summarize some of the effects of the war in the financial field. Investments of the belligerents in South America and in neutral countries were either resold to original borrowers, liquidated elsewhere to pay for munitions, or pledged as collateral for new loans. A great volume of gold was transferred from the Allies in Europe to the United States, Japan, and the neutrals. Inflation of prices resulted from the accumulation of gold, so that the Scandinavian countries preferred payment in goods rather than in gold, which was accepted only at a discount. In the belligerent countries huge amounts of paper money were issued. The percentage of gold reserves declined in spite of the extraordinary means taken to collect the gold which the population hoarded. The ratio of reserves to liabilities of the Bank of England was 14 per cent on July 5, 1919, as against 42 per cent on the corresponding date in 1914. The redemption of paper money in gold was discontinued and paper money fell to a discount with respect to gold, except in England. Because of the failure in Germany, France, and Italy to raise by taxation part of the funds needed for the prosecution of the war, the interest

on loans issued early in the war had to be met by new loans. The fiscal condition of these countries was decidedly weakened during the war. However, as an offset the close financial co-operation on the Inter-Allied Finance Commissions during the war strengthened the Allies as a group. Furthermore, they have become locked together as the result of inter-ally loans. The United States advanced about \$10,000,000,000 and Great Britain over \$7,000,000,000 to the various members of the allied powers. Sterling exchange was supported at a 2 per cent discount in the New York market in order not to hinder the necessary British purchases in the United States. However, in the unpegged markets at Amsterdam, Copenhagen and Madrid it declined to over a 10 per cent depreciation. Similarly, French and Italian exchange was maintained, with greater difficulty and less effectively, at an artificial level by means of inter-government loans. The war has united the financial interests of the nations of the world and the mere signing of peace will not sever them.

(ii) *The Adjustments to Be Made*

(a) *The Free Movement of Gold*

The reestablishment of international credit demands that the massing of gold in some countries and its depletion in others be rectified. The prime test of the restoration of financial equilibrium is the release and free flow of the world's gold. Before the war England operated on a comparatively small accumulation of gold which flowed freely in accordance with the rise and fall of the discount rates of the Bank of England. However, while the nations have their huge note issues pyramided on a narrow gold reserve, gold cannot be permitted to move as freely as before the war. The early reduction of the volume of paper money outstanding is imperative.

(b) *The Extended Use of the Commercial Bill of Exchange*

The greater use of the normal instrument of commercial credit, the bill of exchange, may make it possible for the nations to get

along with less gold than before the war. In other words, while gold will continue to be used as a measure, as a standard of value, it will be in less use as a physical medium of exchange. The commodities of commerce are largely the basis of commercial credit in Europe, and should be so everywhere. The acceptance based on agricultural staples on the way to market has in the United States tended to replace loans based on statements of net worth. The burden of the local banks who alone were able to lend on character or net worth, was reduced, and spread over the banks of the United States who bought the paper, based on commodities en route to the market. New sources of credit were thus opened up in the United States. In an analogous way the extended use of the commercial bill of exchange will provide a great reservoir of credit, internationally, which may be drawn on by the countries whose credit needs are great.

(c) *Coöperation in International Investment*

The development of a broad international market for investments will tap new sources of credit and stimulate saving, by means of which alone the waste of war may be made good. But the problem of restoring normal conditions in Europe cannot be taken up piecemeal. Treated as a whole, Europe may be aided more efficiently. Because of the desire, expressed officially and unofficially, that government advances during the war be canceled, it would be inadvisable to continue advances of credit between governments. Private funds may be obtained if the security is unquestioned. Just as during the war the Allies pooled their demands and pro-rated the available supply of goods, so also during the period of rehabilitation each country would have to submit a statement of its needs, which a central commission would allocate to the countries having the raw materials, and which had joined in an international loan syndicate. The borrowers would pay by an issue of long-term bonds, strongly secured and therefore bearing a reasonably low rate of interest. The new loan should be regarded as receivers' certificates and should have a prior lien on the revenue of the borrower. With

these securities as its assets the international syndicate would issue its own bonds, and would devote the income from the underlying securities to the payment of interest on the collateral issue. Amortization payments should be provided for and a stipulation made that in case of default in the payment of interest on the part of any one country the international syndicate would have the right to draw upon the accumulated amortization payments for the payment of interest on its own bonds. The organic unity of the civilized world requires some unified plan. In various forms, it has been proposed in several countries, and in the United States its exponent has been Mr. Vanderlip.

Furthermore, the creation of a reservoir of short-term credit by means of bills of exchange and the establishment of an investment market for long-term credit will make it possible to regulate exchange rates and therefore the flow of commodities and trade, not by means of expensive and needless movement of non-interest bearing gold primarily, but by the shifting of interest-bearing bills or securities.

(d) *An International Reserve Bank*

The successful working of our Federal Reserve System has attracted the attention of bankers abroad. For example, the late Sir Edward H. Holden in his 1918 report to the stockholders of the London, City and Midland Bank, stated that the Federal Reserve System was the best in the world. Many bankers see the possibility of developing some analogous international scheme.

Previous to 1914, the year of the establishment of our present Federal Reserve banking system, the United States was exposed to various dangers. The lack of confidence in one bank might and often did precipitate a call for gold. Reserves were scattered and panics ensued, although the real wealth of the country, that is, its productive power, its raw materials, and its labor were unimpaired. As temporary expedients, the banks used clearing-house certificates, based on faith entirely. The establishment of the Federal Reserve System led to the creation

of a central gold fund, and to the possibility of reducing the reserve limits so that free gold over and above reserve requirements ran up to \$300,000,000 within sixty days after the inauguration of the system.* Federal Reserve Notes were issued, based not on faith, but on gold and commercial paper, in the proportion of at least forty and not over sixty per cent, respectively.

The gold clearance fund of the Federal Reserve System makes it possible to eliminate the physical transportation of gold from New York to the interior and back, as was done under the old régime. The concept of the gold clearance fund was extended to include several countries. In the memorandum to the International High Commission, referred to above, Messrs. Warburg and Kains recommended that such a fund be established to serve the American nations. The memorandum reads:

"Not only in the case of abnormal interruptions of ocean transportation, but also in the case of normal conditions, this clearance fund might prove to be a very useful instrument. It is no doubt a great waste to pay freight and insurance on gold which at one period travels one way and which with the return flow of trade, will have to travel back over the same route that it has come. It is no doubt a great waste that foreign gold that enters a country in this manner must in a great many cases be melted down and recoinced. Moreover, the loss of interest caused by gold in transit is a very heavy item. This economic waste might be avoided by the creation of the proposed gold clearance fund. * * * While the gold clearance fund will attain its highest efficiency between countries having the same, or interchangeable gold coins, it can, nevertheless, be used to advantage between other countries having a well-established gold standard. There is no reason why treaties should not be exchanged between the United States and European countries and it is hoped and urged that negotiations to this effect be taken up in the near future. To overcome the risk of wars, international agreements might bind several nations to act as trustees for these funds through their authorized agents. All together would agree by treaties that these clearance funds should remain the property of the depositing country under all circumstances, and not be subject to seizure."

* *The Economic Journal*, June, 1919, The Gold Policy of the United States, Ira B. Cross.

Gold need not be an actual measure of value, but only a potential measure, as in the settlement of balances. The use of gold depends not on a "place utility" as the economist calls it, but only on its availability when wanted. The world's gold need not be moved from country to country, nor even segregated, but ear marked and held in trust wherever it happens to be at the time of the inauguration of the system. There might have to be a redistribution of the world's gold when stable conditions are again established.

Some other functions of the Federal Reserve System have also been regarded as applicable to an international banking mechanism, which could regulate not only the movement of gold, but also the clearance of drafts, and the temporary support of an overloaded government bank in a manner analogous to the carrying of the southern Federal Reserve Banks during the cotton-financing period by the others in the system.

An international banking organization in which each of the government banks would be represented might function to some extent like the Federal Reserve Board of the United States in relation to the twelve regional banks, in order to restore confidence by mutual aid, to save the cost of moving gold, and to stabilize international credit through the mobilization of the commercial bills of exchange. Furthermore, such a body might regulate international balances, the flow of trade, the movement of securities, long-term investments or short-term bills, and steady the fluctuations in exchange. In the realm of commerce and finance an institution of this character would give expression to the organic unity of the world, which was reflected in international economic conditions even before the war.

(e) Some European Proposals; Inflation and the Transfer of Debt

In concluding the discussion of the reorganization of international credit, it might be well to touch briefly on some of the other schemes proposed. These will be arranged in the order of feasibility. Charles Gide put forward a "minimal plan," under which new paper money issued by an international consortium

of private banks would be current in all countries. The possibility of an international reserve board has been suggested by the late David Lubin, the founder of the International Institute of Agriculture at Rome. Finally, there were several schemes to escape the burdens of war debt by means of further inflation. These proposals were confined to the citizens of no one country, although they were most numerous in Italy and France. The underlying idea is to transfer the cost of the war so as to burden the countries in accordance with their incomes, that is, to have the United States bear the largest share of the cost of the war since August, 1914. Signor Crespi, in the Chamber of Deputies, and the two Italian newspapers, *Corriere della Sera* (Dec. 12, 1918), and the *Giornale de Italia* (Dec. 25, 1918), strongly urged such a plan. Raoul Peret, of the Committee on the Budget of the Chamber of Deputies, and Jacques Stern in France fathered a scheme for the issue of an international loan, bearing the signatures of the great powers, to refund the cost of the war to each participant. Interest and sinking-fund charges would be paid out of taxes levied on the countries in proportion to their wealth or income. Edmond Thiery, editor of the *Economiste Francais*, had a somewhat similar plan in view. A. E. Stillwell, in England, launched a like proposal under the title, "The Great Plan." These facts are mentioned, not for their practical value, but because they reveal a lamentable indisposition to face the only real solution—world-wide saving—and to resort to the questionable expedient of debtors in all ages, of debasing the currency in which payment is to be made.

(H) *An American Foreign Trade Policy*

After the needs of the transition period shall have been met, it will behoove the United States to formulate a definite foreign-trade policy, if for no other reason than that all the other nations are doing so. The Balfour Committee on Commercial and Financial Policy After the War presented a final report touching every phase of Britain's trade policy. In the past our course was changed with frequent changes in the national ad-

ministration, and particularly so with the changes of the party in power. However, several of the fundamentals of foreign-trade policy which are of vital concern are totally unrelated to programs of political parties. The administration of a definite American trade policy may be left to the permanent personnel of the various cabinet departments whose official life survives changes in administration. Before attempting to indicate some of the essentials of an American policy let us review the lessons of Germany's pre-war experience.

(i) *Lessons from the Economic Rise of Germany*

The defeat of Germany does not detract from her meteoric rise to prestige in the world of commerce in forty years. Economists in Great Britain and France have analyzed this remarkable phenomenon and their commercial bodies and government officials have advocated the adoption of similar methods.

In her industry and commerce, Germany applied the contributions to science made by all the nations. She utilized Perkin's discovery in developing the manufacture of dyes, and Thomas' process in building up her iron and steel industry. Standardized patterns and quantity production are American methods which Germany did not hesitate to incorporate into her industrial scheme. But in the extent and character of the organization of her economic life Germany was unique.

She fostered the creation of the cartel and of the "community of interest," under government supervision. She established banks to aid commerce and industry by long-term credit. Her merchants made a scientific study of markets. She developed an active and extensive consular service. She financed her foreign trade by the extension of ample credit, and by the establishment of banks overseas and of connections with foreign banks. Her merchants compiled and exchanged information on the credit of foreign customers. A national clearing house of credit information, the Schimmelpfeng Agency in Berlin, was maintained for the service of her exporters. In foreign trade her exporters adapted their products and their selling method to the custom

and the tastes of the buyer. They gave him the style or type of goods he wanted. They made prices in terms of the standards of weights, measures, and currency of the buyer. Their quotations were not f. o. b. port of seller, but c. i. f. city of buyer. The German foreign-language press conducted extensive publicity campaigns. Catalogues were prepared that seemed native to each market. Her schools and the German apprenticeship system developed a foreign-trade personnel, trained in language and the technique of export and import. All these methods which have been developed and effectively utilized by Germany to promote her foreign trade may honorably be adopted by any other country aiming at the same results. There were, indeed, many practices by no means peculiar to Germany which ought to be excluded, such as granting bounties or preferential transportation rates on goods for export, dumping goods into foreign countries for the purpose of killing local competition, securing special privileges or tariff concessions in another country, and adhering to the conditional interpretation of the most-favored-nation clause. These unethical practices, carried on more or less by other countries besides Germany, should be regulated by an International Trade Commission so as to avoid the use among the nations of those trade practices which the Federal Trade Commission has suppressed in the United States.

(ii) *The Long-Range Program*

The long-range program in American foreign trade involves the promotion of trade by the joint development of foreign markets by associations formed under the Webb Law, the establishment and maintenance of a merchant marine, the opening of free ports, the extension of education in foreign trade, the promotion of trade research by government and private agency, and co-operation among the various government bureaus and between government and business, between our political and our industrial organization. Finally, the tariff constitutes a most important factor in our trade policy.

The United States has, as a result of the war, made progress

in divers economic activities at the cost of some other powers. The industries for whose products before the war we had to turn to Germany have been established at considerable cost and risk, such as the manufacture of optical glass, chemicals, dyes, toys, chinaware, and surgical instruments. It should be our trade policy to maintain these infant industries by government aid if there is any prospect of their becoming self-sustaining. The absence of craft knowledge or technical skill is not a permanent barrier to the development of a specific industry to the same extent that the lack of raw materials is. As an indication of the outlook for the newly established industries, it should be noted that our tin-plate industry, established under tariff protection in the 90's, now undersells the old-established Welsh industry.

On the other hand, some of our industries like the manufacture of potash from kelp, the salt lakes, cement dust, and furnace slag can hardly be expected to compete with the potash mines of France and Germany. Similarly, American quicksilver cannot ever compete with the Spanish product, or American manganese with that from Brazil. As a trade policy, the artificial maintenance of these industries is indefensible. From a military point of view, the development of a reasonable minimum production capable of expansion in the event of war, or under the stimulus of high prices, is imperative. Either a system of protective tariffs or of import licenses, or an industrial bounty, chargeable to the national defense budget, may be utilized to develop the strategic raw materials.

Then, again, some of our industries are based on imported raw materials such as rubber, copal, tin, and high-grade wool. This condition is not peculiar to the United States. All the manufacturing countries, which are chiefly in the north temperate zone, must import tropical raw materials. The establishment and development of industry dependent upon them is a fit object of government aid, temporarily at least. Indeed, Italy for example does not confine her industry to the manufacture and preparation of native raw materials such as vegetables, fruits, oils, sulphur, and marble. Her great industries depend upon coal,

iron, copper, cotton, and wool, all of which are imported. As a trade policy, we should aim to diversify our industries as well as to develop native natural resources.

Finally, there are various industries like tea raising in North Carolina, whose output compared to total consumption is insignificant, which has neither the climate nor the cheap labor necessary for its ultimate successful competition with Chinese or Indian teas, and which does not produce an essential commodity. It would be uneconomic to attempt to foster in the United States industries for which we are manifestly unequipped.

In some industries the production capacity was greatly stimulated by the high prices paid during the war. To secure it our labor worked under a high pressure, which cannot be maintained. To expect to continue the wartime output is unreasonable. The world has no demand for it. The production of our mines, fields, and factories must in most cases decline below the wartime level, and in many cases to the pre-war level. Our trade policy must be framed in recognition of these conditions. Our exports and imports must decline, and no trade promotion should attempt to obstruct this normal phenomenon.

In the field of shipping there have also been developments of two sorts. New routes have been established which were not only temporarily expedient but permanently economical. Trade with nearby countries increased owing to the shortage of shipping. Tea, rubber, and tin now come direct to the United States from the Far East, and wool direct from Brazil and Argentina instead of from London, Hamburg, or Rotterdam. An American trade policy must aim to retain direct trade with producers and to eliminate the international jobber when he performs no essential service. On the other hand, some war routes may have been efficient during the war and are no longer so in times of peace. Their continuation would be undesirable. The international jobber does perform a service when he distributes goods in small lots at low costs as a result of carrying full cargoes coming and going. British ships carry coal out and bring back ore and heavy raw material, which British industries work up into finished goods. The purchaser of British manufactures enjoys the bene-

fit of the low cost of British ocean transportation. However, the United States with its population of over 110,000,000 can consume most goods in sufficiently large quantities to dispense with the services of the international shipping and jobbing nations, Great Britain, Germany, and Holland.

The establishment of our shipyards and the development of our merchant marine were the fruits of the war. American trade policy must provide for their maintenance and growth. A school of American economists protest that we should let the old shipping countries regain their pre-war control of shipping and that retention of our newly won shipping industry is a form of annexation. However, the nation that carries the world's exports acquires sundry trade information from manifests and shipping documents which may be used to favor the competitors of the shippers. Indeed, international transportation and communication are key industries par excellence. Lacking control of these, the United States is at the mercy of the carrying nations.

As part of our mercantile marine policy we should foster the further development of marine insurance in the United States, establish coal and fuel-oil bunkering depots on the lanes of trade, create a system of communication by cable and wireless, and extend commercial aerial transportation. By conducting these facilities in strict conformity with the new international ethics we can advance, far more effectively than by preaching abstract doctrines, the principle of the square deal which the League of Nations aims to establish.

Free zones should be set up at those American ports which are well equipped with railroad and shipping services and with financial facilities. Free ports will increase the number and frequency of sailings of our vessels, will develop a full cargo on incoming and outgoing vessels, will lower the cost of ocean transportation, will create a consignment market for goods and thus increase the range and lower the price of raw materials for the American manufacturer, will develop and diversify our industries, will facilitate re-exports and in general foster our foreign trade.

But these are all mechanical devices. The human element is necessary to vitalize them. We must build up a personnel, not only for the staff, but also for the line, to use the military analogy. We may not have the dense population of England, Germany, or Holland, where the pressure of the search for a livelihood has driven men into export fields. But we have attained a domestic development in which the law of diminishing returns is in operation so that men would not be attracted from foreign-trade fields by the greater rewards of domestic business. The nation as a whole must be taught to think internationally. In the elementary schools, even, greater stress must be laid on commerce. In the colleges its human aspects must take precedence over the mere movement of commodities. Only thus can we accumulate that fund of foreign-trade information on which Germany's widespread net of trade was so surely set up. Research and trade, the study of foreign languages, personal contacts established abroad, and understanding of foreign peoples all require that we export our citizens to foreign lands to become foci for American trade lines abroad.

A favorable attitude of the government is indispensable. The Webb Law promises to be of great aid, particularly to the small exporters. The extension of the consular service of the State Department and of the trade-commissioner service of the Department of Commerce will enable the American exporter to handle commercial problems in distant countries more intelligently. Finally, the government must protect the American investor abroad in legitimate undertakings as fully as the nationals of other countries are protected. Otherwise, American capital will seek the shelter of friendly foreign flags. The American people are being called upon to-day to support our foreign trade by investing in the obligations of European countries. The small investor will be asked to buy as he bought Liberty Bonds. The security of American funds abroad depends upon the attitude of our Government.

The trader too must be protected against unfair discrimination by foreign powers. Our single-ply tariff compels the equality of treatment of all countries, including those who single out our

trade for restriction, either openly or by hidden discriminatory duties on typically American products, or by customs regulations. To meet the threat of the multiple-tariff systems of other countries, whether the maximum and minimum tariff or the general and conventional tariff, the United States should have a bargaining tariff. "The United States should ask no special favors and should grant no special favors. It should exercise its powers and should impose its penalties not for the purpose of securing discrimination in its favor, but to prevent discrimination to its disadvantage."⁸

In conclusion, the government must view our trade problems in a unified way. National questions are usually split up to correspond to the executive departments of the government, or administrative divisions. We must synthesize the discussion of national questions and unify our policies. In the complex machinery of government, a directing multiple mind is necessary. "Joint consideration by our government boards and commissions of national problems would furnish the mechanism for our economic progress."⁹

I. Thoughts on Commerce and Politics

(i) Nationalism vs. Internationalism in Modern History

In an economic presentation of this kind, it will be worth while to digress for a moment into the field of politics and point out that the great war was the culmination of modern history, that modern internationalism is the fulfillment of nationalism.¹⁰

The Roman Empire, too, represented universal government, but it was based on force. It was overthrown by the more powerful invading barbarians. A faint shadow of its influence was left in the term The Holy Roman Empire. The Catholic

⁸ United States Tariff Commission, Report on Reciprocity and Commercial Treaties.

⁹ "American Problems of Reconstruction," Chapter on The Problem of Reconstruction in the United States.

¹⁰ Ramsay Muir, "Nationalism and Internationalism, Culmination of Modern History," Constable & Co., London, 1916.

church represented a survival of a universal government, based on uniformity. The Protestant Reformation marked the beginning of the differentiation of social groups. It aimed to secure the reading of the Bible in the various vernaculars of Europe, and to set up a local spiritual leadership. Politically, the process of differentiation continued when Greece was liberated, Italy unified, the German Empire formed, and the Balkan States hatched out. The great war completed the process of creation of new political entities based on the principle of nationality. It marked the overthrow of the principle of uniform and unorganized world government by force. It accelerated the formation of an organized world government, based on voluntary co-operation.

Internationalism, as a mode of coöperation between nations, made considerable progress before the war. The Hague Conferences from 1899 to 1907 codified international law, set up the Hague Tribunal in 1899, and attempted to have it function as a permanent court in 1907. Germany alone retarded the development of internationalism when she and her ally, Austria, refused to sign the agreement under which all nations of the world were to consent to submit 24 types of international difficulties to arbitration. However, the idea of the abridgment of national rights and the surrender of part of the sovereignty has been recognized in the guaranteeing of the neutrality of the smaller states, as Belgium, Switzerland and Luxemburg. That is, the great powers surrendered the right of invasion of these countries.

The evidences of an internationalism based on national co-operation were various. There was a body of law which determined the relations between states corresponding to the law applying to individuals. There were international legislatures developed. True, they did not sit continuously. The Congresses of Vienna and of Berlin, however, made the law for nations in as true a sense as the parliaments of the various states established the law for their citizens. There was an executive branch, rudimentary, it is true, but active nevertheless, in carrying out the decisions of the legislative bodies, the international

congresses. This executive was the "concert of Europe." In the same way, we had a rudimentary judiciary to interpret the law. The various arbitration courts which sat during the century and later on the Hague Tribunal functioned between states as civil courts function between individuals.

True internationalism depends upon the principle of nationality. The justification of the creation of states which are coextensive with the nation is that they make possible the maximum group expression and create an interesting variety of types of national culture. Common interests and close kinship between the individuals in the nation-states make for warmer loyalty and more willing obedience to law. Finally, self-government is possible alone in the nation-states, or as Ramsay Muir puts it, "Internationalism is the fulfillment of nationalism."

(ii) *International Commerce and Peace*

(a) *Economic Equilibrium*

The question of national economics comes up in another form in a consideration of the means for the prevention of war. One of the economic causes of war was the difference in the density of population or difference in pressure of living. The Malthusian problem troubled the pastoral and agricultural peoples because the ratio of area to population was constant. These were the only two variables in the economic equilibrium. Conquest and seizure, unless they are well disguised, as in the transfer of Shantung and the Sarre Valley like "pawns in the game," are now discredited as political methods of relieving the pressure of population. However, transportation and the industrial system have made elastic the ratio between population and area. Migrant labor moved back and forth between Italy and the United States, Russia and Germany, China and the East Indies. The three elements, land, population and industry, constitute a new economic equilibrium. At the points of contact of a dense or rapidly increasing population and a sparse or stationary population, the possibility of securing relief not by conquest but by the development of industries becomes evident. Germany and

France, Japan and the Pacific Islands are cases in point. On a given fixed area population can increase if industrialization is possible.

Conversely, if in a developed country industry is artificially restricted, the population on a given area must decrease. Again, if the area of the country is reduced as a result of a war, a new equilibrium may be reached by either decreasing the population or increasing industrial activity. The war disorganized German international trade and consequently her industry. Furthermore, it resulted in a loss of the provinces wrested from France in 1871. The economic equilibrium of Germany has been upset. The hate she engendered has crippled her prospects of industrial expansion. She will either have to export more men or export more goods. Before the war, Germany followed the latter as a policy while Italy tolerated the former as a tendency. After the peace settlement, Germany and even Great Britain will have to send to other countries their city-bred industrial populations because the pre-war customers of both were compelled to establish their own industries during the war to supply the goods which had been imported from Germany and Great Britain.

But there are limits to emigration. Migration of great numbers of the nationals of one state to another followed by the customary segregation produces a refractory element, difficult to assimilate by the new state, and to the extent that old political allegiances are maintained potentially dangerous to the new state in the case of a conflict with the old. Further, there is the ethnological limitation. All non-Anglo-Saxon whites in the United States potentially can and ultimately will merge to form a new ethnic type. But can the same be said of the black or yellow races in our midst? There are political and ethnological limitations to migration as a means of relief to over-crowded countries.

Intensive industrialization, however, does offer a definite economic solution whenever land and population cease to be in equilibrium. Man has nowhere yet reached the limit of density of population. But this solution implies the free access to and unencumbered transit of the raw materials of manufacture to the densely populated sections. Just as urban centers become

clearly defined in the internal economic life of any nation, so in the development of the earth's resources a similar economic alignment of the world's population may from time to time be effected among the nations. These relations of course would not be permanent. They would change as the relative densities of populations shifted and as industries became decentralized.

Corresponding to the right of free access to raw materials is the obligation to prevent exploitation by the industrial state of the nations providing the raw materials and dependent upon it for manufactured goods. However, the opposed political forces moving industrial and agrarian groups within the state are being continually adjusted. Dare we not hope for a parallel international adjustment?

(b) *The Economic Organization of Peace*

There are at present two factors that are distinctly favorable to a world economic organization. One is the peace psychology that pervades war-weary Europe. Before 1914 every incident was interpreted as a war threat. Now every event is a peace move. In 1911 the *Panther* at Agadir threatened war. In 1918 the surrender of the German fleet meant peace. In 1914 the assassination of an Archduke was an excuse for war. In 1920 the trial of a coterie of kings and princes will insure the peace. Peace-seeking Europe is reacting psychologically from a satiety of strife.

A second factor is the time element. The world is economically exhausted, temporarily at least. Until the waste of war is made good, until the material surplus is partially restored, there can be no great war. Besides, the even balance of power as it existed in 1914 is utterly destroyed. One group lies prostrate and impotent, the other is overwhelmingly powerful. Until and unless the second disintegrates as a result of a realignment of the economic interests of the nations, there can be no great conflict.

This then is a distinctly favorable time to experiment with the economic organization of peace. Never were conditions for success so promising. Never was failure so unlikely to result in armed conflict.

(c) *Some Non-economic Aspects of the Maintenance of Peace*

(1) *The Limitation of Sovereignty*

Fundamentally, permanent peace means the limitation of sovereignty in international economic relations. The concept is not novel. The application may be. The smaller or weaker states were shorn of unlimited sovereignty by the great powers through the establishment of protectorates and of spheres of influence, through the neutralization of territory, and the guarantee of integrity. It is the great powers now that must impose restrictions upon such elements of their own sovereignty as may lead to international license. Is there any parallel? There are several. The political theories of Rousseau assumed the "natural rights" of the individual which at some time or other were surrendered in part and transferred to a common will, the sovereign state. Again, men had to socialize their lives in prehistoric days in defense against beasts. The motive of defense against other dangers, less tangible than wild beasts, led to the surrender of the sovereignty of the individual colonial governments in order to "form a more perfect union," the United States. So also the Swiss Confederation, the German Empire, the South African Union and other political aggregations resulted from the surrender of sovereignty rights by their constituent parts.

As a defense against the common danger of war the nations of the world will have to surrender those economic rights, that part of their sovereignty that affects international economic relations, the unlimited exercise of which must breed wars. In resolving the old antithesis between liberty and authority, between freedom and power, the state must content itself with liberty within the law as the individual has had to do. Freedom without restraint, for nations as for individuals, constitutes license and a source of conflict.

(2) *The Ethics of the Limitation of Sovereignty*

What, shall we say, is the test of an international economic policy that will prevent wars? It is, as given above, Kant's

categorical imperative, for each nation so to act that its conduct may be accepted as the universal standard. Any policy in trade that cannot work if adopted by all countries must be prohibited for any one country which seeks its own advantage in this way. It means that Germany's potash, for instance, must no longer be sold at higher prices abroad than at home, her copper must not be bought at a price under the world market price, her goods must not be dumped into competitors' countries, that all those trade practices which cannot be adopted by all nations, which cannot be universalized, may no longer be followed by any one country. In the words of President Wilson, no nation may ask for itself what it would not ask for all the others. By such tests, however, the Paris Resolutions and the scheme of British preference must go by the board.

(3) *Is the Present Economic Order Bankrupt?*

Does the application of this principle require the establishment of a new social order? The present economic order is based on the driving force of individual initiative, the stimulus to progress not only in economic matters but in all other spheres of human activity. Recognition is the determination of achievement. Slowly and increasingly the individual is being subjected to social control. The struggle between individual and society is not to be deplored any more than is the balancing of conflicting forces in all living organisms. Life is struggle. Spencer defines life as continuous adjustment to environment.

The present system normally worked. It developed the world's resources. It spanned its continents with railroads. It lanned the ocean with ships. It connected the seven seas by cables. It knit the cities by telegraph. It banished isolation by wireless. It gave us control over matter. It provided the machinery for increased social control. It clothed and fed the average man like the kings of previous ages. It increased productivity. It satisfied new human needs and multiplied new demands. It made possible raising the standards of living of civilized mankind and afforded an opportunity for the higher life to

larger numbers. Is this force bankrupt? Has the present economic order outlived its day? Admittedly in lands that are highly developed, a large measure of restraint of the individual is possible without retarding the development of the world's resources and the consequent satisfaction of human needs. In fact, uniform restrictive economic measures cannot be applied everywhere, simultaneously, or according to formula. Our economic life does not move on an even front all over the world. The various regions of the world progress in Indian file rather than all abreast. Society advances in a procession, with the civilized countries in the vanguard and the undeveloped peoples in the rear. Our body of law, therefore, reflecting economic conditions can not be kept even in all countries. No single social scheme can apply equally well to all. To be sound our economic development must be gradual, as all organic change is. The advantage that accrues to the race is the possibility of capitalizing the successful progress of some countries and of avoiding the pitfalls in the experience of others. Society as a whole may gradually adopt the results of successful experiments in new forms of social organization. When all the regions of the world are more nearly equally developed perhaps the dream of the radical of to-day will have come true.

Those who have faith in the ethical possibilities as well as in the pragmatic values of the present order must vindicate their belief. The opponents of the present system claim that capitalism as an economic system caused the war. The present order is on trial. Unless it can not only work but avoid a catastrophe like that experienced, unless it can adjust itself continuously instead of convulsively, it is in danger of going under; it should go under. If, as Norman Angell put it, the alternative is Utopia or Hell, the world will insist on testing Utopia before committing itself to the Hell of war. The standpatters would provide for war. The Bolsheviki would recreate a world in six days. Liberalism insists that the dilemma does not exist. An economic organization of nations to preserve peace will prove the fact.

WORLD'S RESOURCES OF VARIOUS CLASSES AS SHOWN BY PRODUCTION PER YEAR

(1) CEREALS AND FOOD PRODUCTS.

Commodity	Fighting Allies	Russia and Rumania	Neutrals	Central Powers
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>
Wheat.....	84,018,911	19,637,063	5,004,986	16,579,469
Rye.....	188,595,295	51,173,902	9,088,067	45,852,385
Barley.....				
Oats.....				
Maize.....	94,330,370	.....	5,983,160	106,536
Rice.....				
Cane sugar.....	6,922,961	.....	463,338	.....
Beet sugar.....	2,411,443	580,342	618,000	3,827,556
Tea.....	354,146	.....	32,234	.....
Coffee.....	805,209	.....	212,819	.....
Cocoa.....	187,557	.....	59,777	.....

(2) TEXTILES.

Wool.....	1,137,895	184,960	111,444	97,751
Cotton.....	4,659,525	a	a	a
Silk.....	229,528	5,240	2,860	16,107
Flax and tow.....	1,225,444	1,081,044	12,000	100,700
Hemp and tow.....	912,000	742,000	88,000
Jute and tow.....	1,482,143

(3) RUBBER.

Rubber.....	129,500	13,000	a
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(4) METALS AND MINERALS.

Iron and steel.....	104,500,000	8,200,000	15,700,000	37,600,000
Copper.....	780,260	33,500	216,700	28,800
Zinc.....	1,513,200	.....	275,200	678,300
Lead.....	1,016,500	.....	191,700	172,000
Nickel.....	389,000	.....	7,000	14,000
Tin.....	102,857	.....	48,400	635
Aluminum.....	529,000	.....	.....	10,000
Antimony.....	23,100	.....	4,000	2,100
Chromated iron.....	134,300	20,000	.....	350
Platinum.....	b269,800	b250,000	b15,000	.....

(5) OLIVES AND OIL SEEDS.

Olives.....	1,345,334	.....	1,174,119	.....
Oil seeds.....	8,230,175	602,015	207,935	166,000

(6) FUEL.

Coal.....	878,100,000	31,000,000	6,300,000	307,700,000
Petroleum.....	50,257,275	11,026,222	6,430,146	718,388

a Production insignificant

b Troy ounces

CHAPTER II

NATIONALISM AND INTERNATIONAL- ISM IN COMMERCE

A. *Commerce Before and During the War*

(i) *Pre-War Conditions*

(a) *Distribution of the world's resources*

The conduct of the economic blockade and the consideration of an after-war policy by the several countries have led to a world inventory. The French particularly have prepared statistical tables showing the distribution of the world's resources among the Allied states, the neutrals, and the Central Powers. Compilations of this character strengthened the determination of the Allies to prosecute the war vigorously and also led to the formulation of a program of economic war after the war. One of the French tables,¹ based on figures for the latest year available, or for the average of the last four years, is given on p. 50.

The extent to which the non-Germanic powers control industrial raw materials is evident from statistics of the imports by Germany during the years preceding the war, when she had unimpeded access to all ports. The value of German imports in 1896 and 1912, in thousand marks, was as follows:

Articles	1896	1912
Rubber.....	34,800	174,600
Cotton.....	238,800	595,000
Cocoa.....	12,100	63,600
Sesame.....	5,500	35,500
Palm nuts and copra.....	26,700	195,300
Oil seed cake.....	29,700	116,500
Rice.....	19,100	102,600
Total.....	366,700	1,283,100

¹ An article in *Opinion*, Paris, by Alfred de Tarde; also *Echo de Paris*, May 1, 1918.

Of the total in 1912, 608,000,000 marks, or about 50 per cent, came from the British colonies.²

The significance of the world-wide distribution of raw materials was for a time belittled in Germany. In fact, the Germans placed great faith in the so-called Ersatzstoffen, or substitute materials. Again, the idea of creating an independent, self-sufficient Mittel-Europa was advocated. The increasing severity of the blockade, however, showed the futility of both of these artifices. That internationalism must characterize commerce was proved to be inevitable. Even Friedrich Naumann, himself, the author of the Mittel-Europa idea, said:

"It has been claimed that by creating a Mittel-Europa we can dispense with a colonial policy, or that a Mittel-Europa will render unnecessary our oversea activities. The idea is absolutely erroneous. Now more than ever must we concentrate energy upon trade overseas, for the Mittel-Europa plan has imposed upon us economic obligations which can be solved only through a colonial policy."

The distribution of the world's resources plainly indicates that a conception like Fichte's "closed state" is purely fanciful. Individual states have virtually a monopoly of particular raw materials. Even under the alignment in the Great War the twenty-odd nations allied against Germany did not have access to all the materials they needed. To a much greater degree is this true of any single state. A study of commercial geography leads overwhelmingly to the conviction that the keynote of commerce is internationalism. Thoughtful consideration of the pre-war statistics of German foreign trade would have exposed the folly of the Central Powers in their attempt to conduct a prolonged war. The same figures also militate against the formulation by the Allies of a boycott policy in the after-war program.

(b) *The Reciprocal Needs of Nations*

The machinery of international trade is infinitely complex. Direct trade, both export and import, is carried on between all

² *Norddeutsche Allgemeine Zeitung*, Jan. 19, 1918. Other figures indicate that only 35 per cent came from the British colonies direct.

the nations of the world. Twenty billion dollars' worth of goods are exchanged annually in ways that almost defy analysis. Germany's trade with the chief warring nations in 1913 was as follows:

	Imports	Exports
United States.....	\$407,246,000	\$169,739,000
Russia.....	339,055,000	209,488,000
United Kingdom.....	208,454,000	342,298,000
France.....	138,808,000	187,998,000

The United States ranked first among the countries that sold to Germany and Great Britain ranked first among the countries that bought from Germany. But every one of the nations in the Allied group sold considerable quantities of one or another product to Germany. The distribution of Germany's imports in 1913 shows from what a wide field the 70,000,000 Germans drew commodities for consumption and manufacture:

SOURCES OF PRINCIPAL ARTICLES IMPORTED BY GERMANY IN 1913.

Articles	Per cent. furnished by		
	Allied Powers	Neutrals	Central Powers
Wheat.....	United States.....40 Russia.....20 Canada.....12	Argentina.....17	
Rice.....	British India.....77 Siam.....13	Netherlands.....6	
Meats.....	Russia.....20	Netherlands.....27 Denmark.....26 Sweden.....36	Austria-Hungary . 6
Pig iron.....	United Kingdom.....59	Sweden.....33	
Iron ore.....	France.....27	Spain.....26	
Copper.....	United States.....88 Australia.....6		
Nickel.....	United States.....65 Belgium.....16		
Tin.....	United Kingdom.....12 British East Indies 13 United Kingdom.....12 Australia.....11	Dutch East Indies...45	
Antimony.....	China.....27 United Kingdom.....21		
Aluminium.....	Japan.....17 France.....27 United Kingdom.....12	Switzerland.....40	Austria-Hungary... 8
Cotton.....	United States.....77 British India.....12		
Wool.....	Australia.....30 British South Africa 13	Argentina.....25	
Hides and skins.....	France.....10 Russia.....9	Argentina.....14	Austria-Hungary...12
Mineral oils.....	United States.....57 Russia.....12		Austria-Hungary...18
Phosphate rock.....	United States.....45		

Looking at these figures from another angle, we can see how the infinite ramifications of trade lines criss-cross political boundaries and indicate an organic unity which embraces the entire world. The following table shows the percentages of the chief exports to Germany from the leading Allied Powers and the rank of Germany in the volume of trade of each power:

EXPORTS OF ALLIED POWERS TO GERMANY.

Articles	Per cent. taken by Germany	Germany's rank in volume of trade	Articles	Per cent. taken by Germany	Germany's rank in volume of trade
(1) UNITED STATES.					
Copper.....	33	1	Lead.....	30	2
Oil seeds.....	68	1	Cotton.....	30	2
Phosphate rock..	24	1	Hides and skins..	21	2
Corn.....	13	2	Wheat.....	12	3
(2) UNITED KINGDOM.					
Coffee.....	41	1	Rubber.....	22	2
Fish.....	45	1	Coal.....	12	3
Tin ore.....	70	1	Pig iron.....	12	3
Wool.....	27	1	Antimony.....	9	3
Silk.....	8	2	Hemp.....	13	3
Jute.....	21	2	Hides.....	13	3
(3) FRANCE.					
Meats.....	22	1	Jute.....	21	2
Aluminum.....	35	1	Wool.....	17	3
Cotton.....	50	1	Rubber.....	14	3
Hides and skins..	41	1			
(4) RUSSIA.					
Barley.....	61	1	Zinc ore.....	100	1
Potatoes.....	69	1	Wool.....	25	1
Copper.....	36	1	Hemp.....	56	1
Copper ore.....	65	1	Hides and skins..	47	1
Lead ore.....	99	1	Oil seeds.....	32	1

A similar analysis for the trade of Italy, Belgium, Serbia, and the Central American Republics would show how the pre-war trade lines crossed the boundaries of the political groups that were aligned during the war. Furthermore, the trade between the countries making up each of the three groups—Allies, Neutrals, and Central Powers—was inter-related so diversely as to correspond to no possible political re-grouping that would be less extensive than the world itself.

A further evidence of the mutual economic interests of nations

is the loss resulting to the participants in a tariff war. The dispute between France and Italy in 1888 and the levy of discriminatory rates resulted in financial losses to both countries. At the end of ten years Italy's exports to France declined 57 per cent and France's exports to Italy declined 5 per cent. There were no adequately compensating outlets of trade with other countries. In the 90's France and Switzerland carried on a trade war with the result that France's exports to Switzerland did not recover their pre-war level until seven years after its close. In addition, through the diversion of trade routes by Switzerland, France lost millions in railway receipts, ocean freights and commissions. Austria, Italy and the United States replaced France in the export of sugar to Switzerland; Germany and Belgium in metals; and the United States in leather. Russia and Germany carried on a tariff war in 1893-4 which proved so costly to both that an agreement was reached after several months.^a

(c) *The Freedom of Commerce*

Before the war trade was fairly unrestricted. German ships were free to engage in the coastwise trade of Great Britain. Certainly Germany had free access to the ports of the British colonies and dominions on the same footing as other powers. In fact, the figures show that in the five-year interval from 1909 to 1913, German export trade with the British Possessions increased as rapidly as with non-British countries that produce raw materials and, in some cases, more so. German export trade with France in this five-year period increased relatively more than German trade with the countries that became her allies in the war.

During this period Germany's import trade with the members of the Allied group grew at a greater rate than with the members of the Central European group. And as for the non-European countries, Germany's imports from the British Possessions increased many times as rapidly as the imports from non-British countries that produce raw material.

Again, the statistics of the trade of Great Britain, France, the

^a W. S. Culbertson, "Commercial Policy in War Time and After."

United States, Belgium, and Germany with India afford absolutely no evidence to show that German imports or exports were restricted. The rate of increase in the trade of Germany is as great as in that of England. In fact, in a long list of commodities imported and exported Germany took first place.

The tables given below show that Germany's trade with the Great Powers and with their colonies was unhampered. The growth of her trade with various parts of the British Empire was indeed amazing.

GERMANY'S EXPORT TRADE IN 1909 AND 1913, SHOWING PER CENT OF INCREASE.

[Figures are in thousand dollars; 000 omitted.]

Exported to	1909	1913	Increase
<i>Allies</i>			<i>Per cent.</i>
United States.....	\$144,295	\$169,739	18
Russia.....	105,787	209,488	99
United Kingdom.....	241,567	342,298	42
France.....	108,319	187,998	74
Belgium.....	82,998	131,137	58
Italy.....	68,777	93,653	36
<i>Central Powers</i>			
Austria.....	182,618	262,950	44
Turkey.....	18,783	23,423	25
Bulgaria.....	4,462	7,219	64
<i>Neutral Europe</i>			
Netherlands.....	107,939	165,088	53
Switzerland.....	98,345	127,586	29
Spain.....	16,457	34,040	107
Sweden.....	37,185	54,693	47
Denmark.....	46,589	67,565	45
Norway.....	24,860	38,493	55
<i>British Possessions</i>			
British India.....	18,759	35,876	91
Australia.....	13,893	21,074	52
Canada.....	5,907	14,408	140
<i>Non-British Countries</i>			
Argentina.....	41,739	63,289	52
Brazil.....	21,854	47,546	118
Chile.....	13,711	23,294	70
Uruguay.....	5,539	8,531	54

The increase of German exports to Russia, France, and Belgium was greater than the increase in exports to Austria or Turkey. German exports to neutral Europe showed, on the whole, no greater progress than those to the Allies. That German exports to the British Possessions were unimpeded is evident from the high percentages of increase as compared with the increase in exports to non-British countries in the same stage of economic development.

GERMANY'S IMPORT TRADE, 1909 AND 1913, SHOWING PER CENT OF INCREASE, AND THE ORDER OF IMPORTANCE OF THE VARIOUS COUNTRIES IN 1913.

[Figures in thousand dollars; 000 omitted.]

Imported from	1909	1913	Increase	Rank in 1913 in Germany's import trade
<i>Allies</i>			<i>Per cent.</i>	
United States.....	\$300,490	\$407,246	33	1
Russia.....	324,613	339,055	5	2
United Kingdom.....	172,133	208,454	18	3
France.....	115,456	138,808	12	5
Belgium.....	68,918	81,975	19	8
Italy.....	68,509	75,599	11	10
<i>Central Powers</i>				
Austria.....	179,607	196,935	10	4
Turkey.....	13,635	17,604	24	24
Bulgaria.....	1,999	2,088	4	59
<i>Neutral Europe</i>				
Netherlands.....	60,312	79,260	32	9
Switzerland.....	38,710	50,767	31	15
Spain.....	29,443	42,293	61	17
Sweden.....	33,758	53,350	59	14
Denmark.....	32,202	45,657	46	18
Norway.....	8,770	19,510	122	22
<i>British Possessions</i>				
British India.....	75,435	128,936	73	6
Australia.....	55,477	70,468	27	11
Canada.....	1,997	15,293	665	26
British West Africa..	20,797	32,010	54	19
<i>Non-British Countries</i>				
Argentina.....	104,172	117,710	12	7
Brazil.....	55,761	59,008	6	12
Chile.....	34,157	47,561	39	16
Uruguay.....	8,097	10,294	27	29

Germany's trade with her colonies was insignificant in 1913; their rank in her import trade was as follows: German East Africa, 43; Kameroun, 47; German Southwest Africa, 51; Togo, 62.

The figures given in the table are of vital importance in any consideration of a boycott of Germany. Where can there be found a population of 70,000,000 to buy of the Allies the goods that she consumes or re-manufactures? Furthermore, the relatively greater increases in the German imports from the British possessions, as compared with those from other countries overseas, show conclusively that Germany enjoyed the freedom of trade.

In many commodities Germany practically dominated the import trade of British India, to the exclusion of Great Britain herself, particularly in aniline dyes and indigo. In many other commodities Germany followed as a close second to Great Britain. The following table shows the total imports of certain articles into British India in the fiscal year 1913-14, and the shares of Germany and her nearest competitor [figures in thousand pounds sterling, 000 omitted]:

Articles	Total imports	Imports from Germany		Imports from nearest competitor	
		Value	Percentage of total	Country	Value
Aluminum.....	143	69	48.2	United Kingdom	41
Copper.....	2,438	866	35.5	do	1,319
Steel.....	1,777	647	36.4	do	702
Aniline dyes.....	512	408	79.7	Belgium	46
Indigo.....	62	55	88.7	do	6
Ale. beer, etc.....	430	106	24.1	do	330
Cutlery.....	189	82	43.4	United Kingdom	8
Toys.....	204	77	37.8	do	112

In the export trade of British India Germany took an equally important part. In copra, mowra seeds, hides and skins, and fiber for brushes she easily held first place. In jute, the great Indian staple, she held second place, with a long lead over the United States, which held third place. The following table shows the total exports of certain articles from British India in the fiscal year 1913-14, and the shares taken by Germany and her nearest competitor (figures in thousand pounds sterling, 000 omitted):

Articles	Total exports	Exports to Germany		Exports to nearest competitor	
		Value	Percentage of total	Country	Value
Jute, raw.....	20,551	4,499	21.9	United Kingdom	7,826
Copra seed.....	1,040	658	63.2	Belgium	138
Mwaa seed.....	304	310	85.2	do	49
Cowhides, raw.....	3,937	1,003	25.3	Austria-Hungary	703
Dyes.....	880	90	10.1	United Kingdom	143
Fiber for brushes.....	893	33	3.7	Belgium	27

The figures for the total trade of India with several countries in 1909 and 1913 indicate that Germany was growing rapidly as a competitor of Great Britain. Her share of the trade was smaller because she had entered the world market later, but she attained second place and led France and the United States, indicating the liberal trade policy of Great Britain and the lack of any official restrictions on Germany in establishing her dominance in the trade in particular commodities (figures in thousand pounds sterling, 000 omitted):

Country	Imports		Per cent increase	Exports		Per cent increase
	1909	1913		1909	1913	
British Empire.....	57,103	74,850	32	41,765	65,720	57
Germany.....	4,875	6,869	41	10,301	16,575	60
France.....	1,172	1,453	24	6,152	10,503	71
United States.....	2,104	3,468	58	8,864	12,526	41
Belgium.....	1,548	2,029	31	4,007	8,758	118

(d) *Foreign Investments*

Before the war investments of capital in foreign countries played a large part in determining the volume and direction of foreign trade. England, France, and Germany had investments scattered all over the world in mines, industries, transportation, and banking. Loans were often made for industrial or public purposes on the condition that the proceeds should be spent in the purchase of goods in the lending country. On the other hand, contracts for public works were let to foreign engineering concerns on the condition that they should procure the financial means for executing the contract. Germany invested not only in South America but also in the British Possessions. France

invested not only in Russia but also in Hungary and Bulgaria. Investments were international—they were not influenced to any great extent by political considerations.

The income from investments made it possible for the industrial countries of Europe to import more than they exported and yet not suffer from an adverse exchange rate. The estimated annual income from foreign investments was, for Great Britain, \$800,000,000, for France about \$400,000,000, and for Germany about \$200,000,000.

Just as commerce was free with but few discriminations or boycotts against particular countries, so also foreign capital was admitted substantially on equal terms in all the countries whose resources awaited development.

(e) *Reëxport Trade*

Not all the world's trade moved directly from the producing country to the consuming country. Some countries like Great Britain, Germany, Holland and Belgium acted as distributing agents for others that lacked the facilities for trading directly with the original source or the ultimate market. Again, goods in various stages of manufacture passed back and forth between countries if differences in the labor market, industrial skill, or special conditions were favorable for the conduct of a certain stage of manufacture. In the densely populated sections of Europe, such as Switzerland, Belgium, and Holland, the so-called finishing or refining trade was conducted. Belgium, with its dense population, washed wool for England, sewed gloves for Germany, and undertook other operations on partly manufactured goods intended for other markets.

The points of transshipment were many and widely distributed. Centered around the North Sea are London, Antwerp, Hamburg, Havre, and Rotterdam, which received goods from all parts of the world and redistributed them, either in their original form or mixed, blended, manufactured, or repacked. In the Orient Hongkong and Singapore are the points of transshipment.

These entrepôts are usually the terminals of transportation lines, ports of entry or shipment for the trade of a large population, and world markets for particular commodities. If, as in London, there is no tariff restriction, the transshipment trade and the consignment market are absolutely unhampered. In Hamburg, where a tariff is in effect, a certain section of the port is set aside as a free zone in which goods not intended for consumption in Germany are not put through the formalities of the customs service. A factor of vital importance in reëxport trade is the financial market, in which foreign drafts covering goods consigned to the point of transshipment are bought and sold freely.

England had a larger transshipment trade than any other country in the world. Free trade, a predominant position in shipping and in insurance, the great London market for foreign drafts, all contributed to make London the world's leading merchandising center. In 1913, England bought for resale over half a billion dollars' worth of merchandise. About half of it came from her colonies, and in addition, she bought from Europe \$96,000,000 worth, including goods amounting to \$20,000,000 from Germany, and about \$17,000,000 from the Baltic States. She resold to Europe goods not produced in England to the extent of \$296,000,000, of which about \$20,000,000 worth went to Germany, and about \$57,000,000 worth to the Baltic States. To restate it in the terms used during the war, she bought in 1913 for resale from the Central Powers goods amounting to \$26,000,000, and from the neutrals \$32,000,000, and in the same year she resold to the neutrals goods amounting to \$90,000,000 and to the Central Powers \$104,000,000.

In 1913 England sold to the United States goods amounting to \$288,000,000, but of this \$147,000,000 worth came from non-British sources. For instance, we bought of England Philippine hemp worth \$700,000; East Indian jute, \$4,400,000; wool from Argentina, Australia, and South Africa, \$10,000,000; rubber from the Kongo, Brazil, and the Straits, \$40,000,000; and tin from the Straits, Bolivia, the Dutch Indies, South Africa, and Australia, \$25,000,000. In 1913, England imported \$171,000,000

worth of wool, of which Argentina furnished \$10,000,000 and the British colonies \$137,000,000. Of this amount, Great Britain resold \$66,000,000 worth; \$20,000,000 to Germany; \$17,500,000 to France; \$15,000,000 to Belgium, and \$10,000,000 to the United States. By reason of her facilities in shipping, insurance, and banking, and because London is the great consignment market of the world, England was able to furnish these goods to the other nations more cheaply than they could buy them directly.

The transshipment trade of some other countries ran into large figures. France, for instance, bought for resale goods worth \$461,000,000 and reexported goods worth \$476,000,000. Belgium's purchases of goods for reexport amounted to \$488,000,000. Switzerland bought the reexported goods of France, Germany, and England to the extent of about \$211,000,000. In Belgium, Holland, and Switzerland some of the transshipment trade represents goods interrupted in transit, which in larger countries would represent internal commerce.

(ii) *The Effects of the War*

(a) *Increase in the Volume of Trade*

One of the outstanding effects of the war has been the increase in the volume of trade. This increase has been felt by belligerents and neutrals—by European and non-European countries. Undoubtedly much of it has been due to the rise in prices. Labor and energy were withdrawn from normal production for military purposes, so that the belligerents had to import additional goods to make up the shortage. Finally, the war itself developed new needs, tremendous in volume and pressing for immediate satisfaction. The inserted table indicates the nature of the change in some of the leading countries. The figures for 1918 are given elsewhere, under the several countries.

Not all the countries increased both exports and imports. British India, Australia, and British South Africa, as well as Spain, Argentina, and Brazil, suffered a decline in imports, in part because of the lack of shipping facilities but more largely because of the economic blockade of Germany, one of their sources of sup-

FOREIGN TRADE OF PRINCIPAL COUNTRIES, 1913, 1915, 1916 AND 1917.^a
[Figures in thousand dollars; 000 omitted.]

IMPORTS

Country	Period		1913	1915	1916	1917
	Months	Ending				
<i>Europe</i>						
<i>Belligerent:</i>						
United Kingdom...	12	Mar.b	3,744,133	4,245,400	4,688,345	5,496,503
France.....	12	Dec.	1,639,205	2,148,220	3,081,520	5,317,022
Italy.....	12	Dec.	703,608	907,785	1,618,440	2,700,302
Russia.....	7	July	347,119	125,420	289,241	524,289
<i>Neutral:</i>						
Spain.....	11	Nov.	230,521	171,700	161,271	132,797
Switzerland.....	9	Sept.	266,217	220,039	275,853	351,230
<i>Americas</i>						
United States.....	12	Dec.	1,792,596	1,778,507	2,301,716	2,052,466
Canada.....	12	Mar.b	618,300	507,800	845,300	902,300
Argentina.....	12	Dec.	478,760	204,735	353,243	366,934
Brazil.....	11	Nov.	302,399	132,768	173,627	189,727
<i>Asia and Africa</i>						
Japan.....	12	Mar.b	367,400	280,340	436,196	593,391
British India.....	11	Nov.	546,093	380,770	460,667	484,071
Australia.....	12	Dec.	388,103	313,558	377,256	370,968
British South Africa.....	11	Nov.	194,095	145,421	191,077	174,863
Egypt.....	12	Dec.	139,138	96,512	154,064	158,079

^a Based on British Board of Trade figures, Account of Trade of British Possessions and of Foreign Countries.

^b March of the following year.

EXPORTS

ply, and because England and France had less goods to export or to reexport. The year 1915 particularly shows a diminution of imports for Spain, Switzerland, the United States, Canada, Argentina, Brazil, Japan, British India, Australia, British South Africa, and Egypt. This is probably due to the facts that the transition to a war basis had not yet been effected and that the severance of trade relations produced its worst effect in the first year of the war. There was a perceptible revival in 1916. However, the South American and Far Eastern countries, except Japan, imported less in 1917 than in 1913.

Although the imports of the European belligerents increased considerably, their export trade declined. The reason is obvious. They needed more materials for the conduct of war, and they produced a smaller surplus available for export. The neutrals, however, experienced a boom in exports, which was the counterpart of the enormous increase in imports of the belligerents. The European neutrals became the workshops of the warring nations. So also did the countries outside of Europe, except those that were so distant that they could be reached only by long sea voyages. The United States and Canada on the west and Japan on the east increased their export trade over 250 per cent. The exports of Argentina, Australia, and British South Africa remained practically stationary, and those of Brazil and British India decreased. In the year 1915 the low-water mark of the decline in many countries was reached, due to causes described in the preceding paragraph.

A study of the trade balances reveals the cataclysmic effect of the war on trade. In the belligerent countries the unfavorable balance of trade before the war was sharply accentuated. In the United Kingdom the unfavorable balance was almost trebled; in France it increased over ten fold.⁴ In Italy the unfavorable trade balance increased about 1000 per cent. On the other hand, the United States, Argentina, British India, and Egypt, which had favorable trade balances before the war, largely increased them. Moreover, some countries that had unfavorable balances of trade before the war, such as Spain, Switzerland,

⁴ See below, Chapter on France.

Canada, Brazil, and Japan, reversed the balance. The war has indeed upset international trade relationships. It has hastened the maturing of the undeveloped countries. It has enabled them to pay off their debts and to lend money to their former creditors. It has compelled them to manufacture the goods which they formerly had been receiving from the European belligerents and thus accelerated the process of industrialization. The figures representing trade balances reveal strikingly the effects of the deep-seated changes in the organic nature of international commerce.

(1) Price Increases

The increase in the value of international trade during the war is to be accounted for partly by the increase in the quantity of goods shipped and partly by the increase in prices. Of the 33 leading commodities exported by the United States, there were, according to a report of the Bureau of Foreign and Domestic Commerce,⁵ increases of quantities in 24 and decreases only in 9. The figures for some of the principal articles are given below.

UNITED STATES EXPORTS OF LEADING ARTICLES FOR FISCAL YEARS 1914, 1916 AND 1918.

Article	1914	1916	1918	Ratio of Tonnage 1918:1914
<i>Increases:</i>				
Coal..... tons	19,664,000	22,628,000	25,894,000	1.32
Steel billets, etc..... tons	46,926	962,000	1,971,000	42.00
Gunpowder..... 1,000 lbs.	989	212,821	337,506	340.00
Zinc, etc..... 1,000 lbs.	3,096	243,333	203,571	66.00
Wheat flour..... bbls.	11,821,461	15,520,669	21,879,951	1.85
Oats..... bu.	1,859,949	95,918,884	105,837,309	57.00
Sugar..... 1,000 lbs.	50,896	1,630,151	576,483	11.30
Condensed milk..... 1,000 lbs.	16,209	159,578	528,759	32.00
Beef..... 1,000 lbs.	33,225	320,132	521,844	15.70
Cotton cloth..... 1,000 yds.	414,860	550,572	684,927	1.65
Printing paper..... 1,000 lbs.	117,569	200,718	310,434	2.64
<i>Decreases:</i>				
Cotton, unmanufactured.. 1,000 lbs.	4,760,900	3,084,000	2,321,000	0.49
Tobacco, unmanufactured. 1,000 lbs.	449,700	443,300	289,200	0.65

In the same way, a study of the 33 leading articles of import shows substantial increases of quantities since 1914, although owing to shortage in shipping space, there was a decline in several items:

⁵Dec. 20, 1918.

UNITED STATES IMPORTS OF LEADING ARTICLES FOR THE FISCAL YEARS 1914,
1916 AND 1918.

Article	1914	1916	1918	Ratio of Tonnage 1918:1914
<i>Increases:</i>				
Mineral oil..... 1,000 gals.	791,000	871,000	1,404,000	1.78
Manganese ore..... tons	289,000	493,000	558,000	1.93
Zinc ore..... tons	18,000	291,000	102,000	5.67
Lead ore..... 1,000 lbs.	60,000	82,000	189,000	3.15
Wheat..... bu.	1,979,000	5,703,000	28,177,000	14.20
Copra..... 1,000 lbs.	56,000	119,000	508,000	9.05
Cocoa..... 1,000 lbs.	176,000	243,000	399,000	2.28
Soya bean oil..... 1,000 lbs.	16,000	98,000	337,000	21.10
Cocoanut oil..... 1,000 lbs.	74,000	66,000	259,000	3.50
Printing paper..... 1,000 lbs.	563,000	879,000	1,204,000	2.14
<i>Decreases:</i>				
Iron ore..... tons	2,168,000	1,426,000	838,000	0.39
Jute burlaps..... 1,000 lbs.	496,000	384,000	444,000	0.89
Hides and skins..... 1,000 lbs.	561,000	744,000	433,000	0.77
Cotton, unmanufactured.. 1,000 lbs.	123,000	233,000	103,000	0.84

Prices rose, practically throughout the world, over 100 per cent from August, 1914, to August, 1918. This increase is reflected in the values of imports and exports, for although for some commodities the tonnage of imports and exports may have increased, the prices of almost all increased in a greater ratio. A few typical examples are cited in the following table which gives the average price of certain imported articles for August, 1914, and August, 1918. The figures are taken from the Monthly Summary of Foreign Commerce:

Article	Unit	Average price 1914	Average price 1918	Ratio 1918:1914
Cotton.....	Pound	\$0.11	\$0.47	4.10
Sisal.....	Ton	123.00	339.00	2.76
Flax.....	"	311.00	764.00	2.46
Hemp.....	"	158.00	473.00	3.00
Manila.....	"	200.00	356.00	1.78
Raw silk.....	Pound	3.75	5.70	1.52
Clothing wool.....	"	.262	.584	2.23
Carpet wool.....	"	.161	.381	2.36
Goat skins.....	"	.272	.581	2.13
Copper.....	"	.134	.246	1.84
Tin.....	"	.329	.722	2.20
Pig iron.....	Ton	25.00	60.00	2.40
Bar iron.....	"	36.00	91.00	2.53
Steel ingots.....	Pound	.023	.076	3.30
Nitrate of soda.....	Ton	28.78	50.75	1.76
Chemical wood pulp.....	"	37.87	75.34	1.99
Bleached wood pulp.....	"	51.01	86.35	1.69

An analysis of the effect of the increase,* based on the prices of 73 per cent of the exports and 75 per cent of the imports, shows that from 1914 to 1916 the average price of exports rose 32 per cent, and the average price of imports rose 23 per cent. The following table shows strikingly the effect of the increase of prices in swelling our trade total. The figures cover eight months of 1916:

	Actual 1916 prices	At 1914 prices	Increase
Exports.....	\$2,497,886,000	\$1,823,406,000	\$674,480,000
Imports.....	1,249,634,000	1,012,359,000	237,275,000
Balance.....	\$1,248,252,000	\$811,047,000	\$437,205,000

In other words, of the increase in the value of our exports for these eight months, about two-thirds of a billion dollars can be ascribed simply to the rise in prices, and of the gain in our favorable trade balance about half a billion dollars was due to the same cause.

(b) *Changed Currents of Trade*

Not only has our trade increased in volume, but it has strikingly changed its direction. The causes were several. German ports were blockaded from the beginning of the war. The submarine campaign reduced shipping at a time when it was more needed than ever. The restriction of trade by a policy of licenses was put into effect by the neutrals as well as by the belligerents. Some commodities were entirely under embargo. Materials and manufactured goods formerly imported from the Central Powers had to be sought elsewhere. The leading Allies also had to reduce the manufacture of nonessentials. New trade currents were therefore set up, affecting the countries that had obtained their manufactured goods from Europe and now turned to the United States and Japan. The results were manifold and com-

* *Boston News Bureau*, November 21, 1916.

plicated. The basic need of shortening trade routes eliminated distant sources of supply. We shall trace a few of the leading changes affecting the direction of trade currents and shall consider specific countries, specific commodities, and the reduction of the transshipment trade.

(1) *Specific Countries*

The effect of the changes on specific countries has already been treated in the discussion of the increase in the volume of trade. For more striking illustration, however, the effect of the war on the trade of the United States, Great Britain, and Japan may be cited, and certain conclusions may be drawn.

FOREIGN TRADE OF THE UNITED STATES IN 1913, 1917, AND 1918, BY GRAND DIVISIONS.

[Figures in million dollars; 000,000 omitted.]

	Imports			Exports		
	1913	1917	1918	1913	1917	1918
Europe.....	865	551	318	1,500	4,062	3,859
North America.....	390	872	976	601	1,262	1,326
South America.....	198	599	609	147	312	303
Asia.....	281	758	853	126	431	446
Oceanica.....	35	99	188	82	116	158
Africa.....	24	73	86	29	51	59
Total.....	1,793	2,952	3,031	2,484	6,233	6,149

This table shows the striking decrease of imports from Europe and an equally marked increase of exports. With respect to North and South America and the other continents, both our exports and our imports increased, owing to elimination of their trade with central Europe and the reduction by the Allies of nonmilitary business. The other continents developed new sources of raw materials or sent us goods directly which formerly came to us at the end of a circuitous route by way of Europe.

Further analysis shows the changes in the direction of trade with particular countries.

FOREIGN TRADE OF THE UNITED STATES IN 1913, 1917, AND 1918, BY COUNTRIES.]

[Figures in million dollars; 000,000 omitted.]

	Imports			Exports		
	1913	1917	1918	1913	1917	1918
<i>Europe</i>						
Belligerents						
United Kingdom.....	272	280	149	591	2,009	2,061
France.....	139	99	60	154	941	931
Italy.....	55	36	24	70	419	492
Russia.....	22	12	7	26	315	9
Neutrals						
Netherlands.....	38	23	9	122	58	11
Spain.....	24	37	18	31	92	68
Switzerland.....	24	20	17	1	20	28
Norway.....	8	6	2	9	63	36
<i>America</i>						
Canada.....	142	414	452	403	830	887
Cuba.....	125	249	279	73	196	227
Mexico.....	82	130	159	48	111	98
Argentina.....	26	178	227	55	108	105
Brazil.....	101	145	98	40	66	57
Chile.....	30	143	166	17	57	66
<i>Asia and Africa</i>						
British East Indies....	115	260	298	16	43	51
Japan.....	99	254	301	62	186	274
China.....	40	125	111	25	40	53
Australia.....	15	32	94	52	75	102
Philippine Islands.....	18	62	86	28	38	53

The table shows that our imports from the European belligerents declined very greatly, and that our exports to them, of goods necessary for the prosecution of the war, increased over 600 per cent. Trade with the neutral countries moved in various directions. Our imports declined as a result of the action of the War Trade Board. During the period of our neutrality the imports from neutral Europe remained practically unchanged. Our exports to them rose in general up to 1917 and declined subsequently, owing again to the licensing of exports by the War Trade Board. The increase of our exports to neutral Europe in 1918 over 1913 was due to the difficulty they experienced in getting goods from the belligerents, who formerly transshipped much of the goods that neutral Europe imported.

As for America, Asia, and Africa, our trade with every one of the countries grew enormously. The cause was largely the

elimination of transshipment traffic, which was replaced by direct trading with the United States. Again, we called upon these countries for raw materials to supply our shops, which were turning out war supplies. Our exports to them increased because transshipment by way of Europe was eliminated and because we had established new industries, such as the manufacture of dyes and chemicals, which these countries had obtained from Europe before the war.

A classification of the foreign trade of Japan shows the operation of similar influences, resulting in decreased imports from Europe, increased exports to Europe, and increased trade in both directions with nearby countries.

JAPAN'S EXPORT TRADE BEFORE AND DURING THE WAR.

[Figures in thousands of dollars; 000 omitted.]

Country	1913	1918
Far East:		
China.....	77,098	179,087
British India.....	14,892	100,957
Asiatic Russia.....	2,129	19,968*
Philippine Islands.....	3,133	11,715
Australia.....	4,306	32,455
Africa.....	920	24,029
South America:		
Argentina.....	833	18,243
Brazil.....	709	12,650
Chile.....	65	2,345
North America:		
United States.....	91,960	264,269
Europe:		
Great Britain.....	16,386	71,219
France.....	30,025	70,887
Italy.....	14,664	5,771
Total exports of Japan.....	315,281	978,107

* In 1917 exports to Asiatic Russia were \$37,006,000, the great decrease in 1918 being due to the revolution.

An analysis of the export trade of the United Kingdom for the same three periods shows that the exports of domestic goods to distant countries like China, Japan, India, Argentina, and Canada declined, but exports to all the countries of Europe allied with her or neutral increased. On the other hand her transshipment business, even with the outlying countries, was up to

the end of 1916 maintained at the pre-war level but as a result of submarine warfare drastically reduced in 1917 and in 1918.

EXPORTS OF THE UNITED KINGDOM DURING THE WAR.

[Figures in thousand dollars; 000 omitted.]

Country	Exports of United Kingdom Products			Re-exports of Foreign and Colonial Products		
	1913	1916	1917	1913	1916	1917
<i>Europe</i>						
<i>Belligerent:</i>						
France.....	140,614	454,242	543,442	58,071	71,793	79,616
Russia.....	87,979	121,456	237,193	46,614	45,562	19,466
Belgium.....	64,345	1,252	1,168	36,064	76	21
Italy.....	71,005	99,409	133,634	4,918	17,190	21,315
<i>Neutral:</i>						
Holland.....	74,986	116,913	101,223	24,751	43,408	19,320
Scandinavia.....	97,978	140,464	89,690	10,125	31,553	9,246
<i>America</i>						
United States.....	142,370	158,872	161,762	146,513	155,026	130,909
Canada.....	113,272	87,519	78,837	17,069	16,607	7,738
Argentina.....	110,035	67,792	62,681	3,871	3,160	2,092
<i>Far East</i>						
Australia.....	167,526	174,467	107,598	16,325	15,352	9,246
Japan.....	70,617	36,456	26,863	1,442	2,273	1,557
China.....	72,148	51,996	51,682	683	765	346

The extent to which Great Britain was able to hold intact her transshipment trade is indicated in the figures of imports for re-sale, stated below in millions of dollars:

Year	Colonial Imports	Non-British Imports	Total
1913.....	273	259	532
1914.....	242	221	463
1915.....	276	205	481
1916.....	261	212	474
1917.....	210	133	343

Her resales of imported products likewise almost maintained the pre-war level through 1916. The marked decline occurred in 1917 and to a greater extent in 1918.

Year	To Colonies	To Foreign Countries	Total
1913.....	76	466	543
1914.....	60	404	464
1915.....	60	421	481
1916.....	71	404	474
1917.....	36	303	339
1918.....	not available	not available	151

A study of the transshipment trade in Europe throws an interesting light on the effect of the elimination of Germany's part in it. Great Britain's reëxport trade with the Baltic countries—that is, the three Scandinavian countries and Russia—increased considerably, owing to the closing of Hamburg as a port of transshipment. She slightly reduced her purchases for resale from the Baltic countries, buying in 1913 goods worth \$17,130,309, and in 1916 goods worth \$11,699,707. However, she resold to the Baltic countries considerably more in 1916, \$78,119,000, than in 1913, \$56,788,000. The transshipment trade of Great Britain with the neutrals of Europe increased in both directions. She bought more for resale and resold more transshipped merchandise in 1916 than in 1913.

	British purchases for resale	British resales of transshipped goods
1913.....	\$32,303,000	\$89,585,000
1916.....	36,517,000	114,842,000

However, owing to the stoppage of trade with Germany and her confederates, the reëxport trade of Great Britain with Europe as a whole declined considerably.

	British purchases for resale	British resales of transshipped goods
1913.....	\$96,273,000	\$296,469,000
1916.....	68,960,000	228,716,000

The elimination of the Central Powers reduced the total trade of the United Kingdom and illustrated to an extreme the effect of a boycott.

(2) *Specific Commodities*

The nature of the change in the direction of world trade currents may be studied not only with respect to the countries involved, but also with respect to the commodities that enter into the trade. The United States was subject to the same influences as Japan, Australia, Canada, and other non-European countries that were either inactive or late participants in the struggle.

The effect on the United States was that it increased very largely its exports of manufactures ready for consumption or for use in further manufacture. To a less extent it increased its exports of raw material. As for imports, there was a 100 per cent increase in raw material for manufacturing, and a decrease in manufactures ready for consumption. The table is given here-with:

FOREIGN TRADE OF THE UNITED STATES, BY COMMODITY GROUPS, IN 1913, 1917 AND 1918.

[Figures in million dollars; 000,000 omitted.]

	1913	1917	1918
Imports:			
Raw material for manufacturing.....	605	1,268	1,221
Foodstuffs, crude.....	221	386	346
Foodstuffs, manufactured.....	198	351	397
Manufactures, for manufacturing.....	340	541	649
Manufactures, ready.....	413	388	405
Miscellaneous.....	15	18	13
Total imports.....	1,793	2,952	3,031
Exports, domestic:			
Raw material for manufacturing.....	769	781	953
Foodstuffs, crude.....	170	509	548
Foodstuffs, manufactured.....	325	807	1,406
Manufactures, for manufacturing.....	397	1,318	1,053
Manufactures, ready.....	780	2,701	2,069
Miscellaneous.....	8	52	19
Total domestic exports.....	2,448	6,167	6,048
Foreign merchandise reexported.....	36	64	101
Total exports.....	2,484	6,231	6,149

The tea trade of Java affords a typical illustration of the effect of the war on Oriental products.⁷ Ordinarily, Holland buys up the tea output and reexports it. Russia and Great Britain also share in this trade. During the year 1918, however, Holland and Great Britain received no Java tea, and the United States and Canada, which in 1916 received directly less than a million pounds, took 36 million pounds. The United States has become the largest purchaser of Java teas. The exports of Java teas in the nine months January to September for the last three years were as follows:

⁷ Consul E. A. Carleton, Batavia, *Commerce Reports*, Jan. 20, 1919.

TEA EXPORTS FROM JAVA, 1916-1918.

[Figures are in thousand pounds; 000 omitted.]

Destination	1916	1917	1918
	<i>Pounds</i>	<i>Pounds</i>	<i>Pounds</i>
Holland.....	27,798	207	.....
Great Britain.....	16,955	3,742	.....
Russia.....	19,975	16,764	996
United States.....	} 606	22,000	{ 29,617
Canada.....			{ 7,249

The tin trade shows a similar reduction of reexported tin, which England gathered from the Straits Settlements, the Dutch East Indies, South Africa, Australia, China, and Bolivia. As a result of the submarine campaign, which diverted shipping out of the transshipment trade into the Atlantic lanes, Bolivian ore was sent direct to the United States, where during the war a tin-smelting industry had been established. The following comparison shows a reduction in England's reexport trade in tin:

ENGLAND'S TIN TRADE, 1912 AND 1916.

[Figures in thousand pounds of tin.]

Year	Imported		ReExported		
	Tin	Tin Ore	Tin Ore	Total Tin	Tin to United States
1912.....	96,672	64,180	7,612	73,311	60,988
1916.....	52,967	73,763	1,846	39,187	33,687

Viewed from another angle, the figures show that the decline of United States imports of tin from England from 52 per cent in 1913 to 13 per cent in 1918 was accompanied by an increase in direct importations from the Far East, from 41 per cent in 1913 to 84 per cent in 1918.

UNITED STATES IMPORTS OF TIN, BEFORE AND DURING THE WAR.

[Figures in thousand pounds of tin.]

Year	Total Tin	From England	From Straits Settlements	From Holland	From Dutch East Indies	From Germany	From China and Hongkong
1911-12....	111,304	66,110	33,275	4,051	....	3,997	1,908
1915-16....	143,984	41,730	81,608	....	14,226	....	5,457
1917-18....	136,519	29,593	56,188	....	23,261	....	13,524

The story of tin is typical. Statistics for any one of the other Oriental raw materials or food products would also show that the European countries were compelled to reduce their merchandising traffic in the goods of their colonies, and that the countries bordering on the Pacific developed a large local or direct trade without the intervention of the international distributors of Europe.

Another commodity which strikingly illustrates the shifting of trade routes as a result of the war is wool. Of our imports of wool in 1913 and in 1918, Great Britain furnished 35 per cent and 2 per cent, and the East Indies 12 per cent and 81 per cent respectively. During the war, the Far East traded with us directly and not through European intermediaries. When the British Government put an embargo on the importation of wool from South America, the trade was directed toward the United States as a result. The following comparison of the wool exports from Brazil to the United Kingdom and to the United States for 1913 and 1917 is striking: *

WOOL EXPORTS FROM BRAZIL.

Year	To United Kingdom	To United States
	<i>Bales</i>	<i>Bales</i>
1912-13.....	77,000	29,000
1916-17.....	36,000	270,500

In addition, the trade in merino thread for the loom, which hitherto was chiefly in French and German hands, has now passed to the control of Brazilians themselves.

(3) *Reduction of the Transshipment Business*

A splendid brief description of the changes of trade currents is given by a representative of W. R. Grace & Co., the general manager of the Pacific Mail Steamship Company.⁹

"The appearance of the U-boat in the Mediterranean in 1915 was the forerunner of the change in the Oriental trade route from the Mediterranean to the Pacific. London, Hamburg, and Rotter-

* *Jornal do Commercio*, Rio, Apr. 8, 1918.

dam had previously formed an entirely artificial channel so far as concerned the great import trade of North and South America, as against a direct ocean route by Pacific gateways and American Atlantic ports via the Panama Canal. This was particularly true as to the East Indies, Siam, and China ports, excepting Hongkong and Shanghai, to which, before the war, trans-Pacific service from North and South America was limited.

"The freighting of Oriental products for American consumption via England, Germany, and Holland was built up through many years by intrenched European interests, who were in turn afforded special facilities for marketing European products through the direct trading advantages they thus obtained on outward voyages. All this, notwithstanding the fact that America was the greatest consuming market for several leading tropical products, especially rubber, but including also spices, and, of less importance but still providing large tonnage, rice, tin, hides, and beans. Our requirements were obtained via Europe. Only limited quantities of these commodities moved by transshipment from Hongkong."

The development of new trade routes elsewhere than in the Pacific has been influenced by the closing of German ports, the embargoes maintained by the United States on exports to certain neutral European countries, the search for raw materials to replace those which had formerly been supplied by the Central Powers or which were rendered inaccessible by war conditions, and the stimulation of exports of manufactured merchandise from the United States and Japan to countries formerly drawing such products chiefly from Europe.

Early in the war the Scandinavian countries began to carry on directly with the United States a brisk trade which formerly had been cleared through the German free ports.

New trade routes have been created by the search of the beligerents for new supplies of raw material. Hence the movements of manganese ores from Brazil and Chile to the United States to support the production of steel munitions. Tungsten, also required in steel making, is now imported from Peru and other South American countries. The expanding demand for wool clothing and the elimination of European reexports have increased our imports of raw wool from Chile and Argentina.

The movement of jute required the world over for bagging has become more direct, the bags being shipped direct from the points of production in India to the markets where they are consumed. Tea was formerly packed and blended in vast quantities at London, but the necessity for direct shipment to consuming markets from India and China has resulted in the transfer of these processes to centers nearer the production of the tea leaf. A large amount of rice, formerly mixed and polished at transshipment points, is now put through these processes near the centers of production and shipped directly to the rice-eating populations.

The net effect of the changes in trade currents has been to eliminate the North Sea and Baltic ports as transshipment points for Oriental commodities consumed elsewhere than in Europe, Hamburg and Bremen have been completely shut down, and the Dutch ports partly. For Great Britain the change merely means a transfer of part of her transshipment trade to British India and her overseas dominions. The result may be the shaping of a new British trade policy, in which the colonies will have a larger part than before.¹⁰

(c) *Economic Decentralization*

Before the war the industrial and commercial organization of the world was concentrated in the matured countries of Europe. The war shattered international relations in trade and industry. During the war the needs of the powers dependent upon the European belligerents for their manufactured goods and for their shipping facilities were disregarded. The results were the establishment of substitute industries, the discovery of new local sources of supply, and the development of the economically self-sufficient state. Again, to provide for the minimum needs necessary for human existence, special trade agreements were drawn between certain nations providing for an exchange of indispensable commodities. Finally, the trade between adjoining countries was fostered and increased considerably.

¹⁰ Robert H. Patchin, of W. R. Grace & Co., *Journal of Commerce*, Jan. 26, 1918.

(1) *Substitute Industries*

In Germany, which was completely cut off from all but the adjacent neutrals, and in England, Denmark, Switzerland, and Holland, which had to restrict their normal consumption owing to the lack of cargo space, substitutes were developed for the imported goods no longer available. The substitute commodities covered a wide range. Instead of cotton or wool, fibers of nettles, of peat, of paper, and of wood products were used. Tin was replaced by zinc, brass by zinc or magnesium. For electrical insulation, artificial silk or paper was used instead of mica. For rubber, the recovered waste of discarded rubber articles was used. This subject will be treated more fully in the chapter on Germany.

(2) *New Local Sources of Supply*

The world was scoured for new sources of raw materials. Potash, manganese, tungsten, platinum, and tin were greatly in demand, and prospecting for all these metals was vigorously prosecuted everywhere. Antimony, which had been imported from China, was present in American lead ore in combination with the lead. Before the war a penalty was imposed by the smelter for the presence of antimony in lead ore in quantities exceeding a specified minimum. The use of antimonial lead in shrapnel conferred a new value upon the undesired metal.

(3) *The Fostering of Economic Self-Sufficiency*

In the mature countries which had been dependent upon the Central Powers for their dyes and chemicals, drugs, optical glass, glassware, china, and refractories, there was a vigorous development of these and other industries which were necessary to make each country independent in its manufactures. The United States, the United Kingdom, and Japan are cases in point.

In the same way, some of the undeveloped or raw-material countries found themselves thrown on their own resources, and in these countries the war hastened the industrialization of the

younger peoples. Australia had to make her own stoves, kitchenware, trunks, bags, bedsteads, and a long list of other manufactures which she formerly obtained from abroad in exchange for her raw materials. Brazil developed an extensive line of manufactures in which she utilized her own raw material.

(4) *"Compensation" and Special Trade Agreements*

So closely and vitally are the nations of the world related that interference with the normal trade relations not only produced inconvenience, but even threatened human existence. To avoid the inevitable results of the isolation incident to the war, adjoining countries entered into special negotiations under which a minimum quantity of the products peculiar to the countries would be exchanged subject to specific conditions. In some of these agreements one of the conditions was a loan by the receiving country, or the furnishing of labor in exchange for goods. For instance, Germany agreed to supply Switzerland with 200,000 tons of coal every month at about \$20 a ton, on the condition that the Swiss industries, railways, and municipal gas works receiving the coal should lend to Germany \$40 for every ton received, or a total of \$8,000,000 a month. Again, Germany agreed to supply given quantities of coal provided it were used for the manufacture of materials of war for Germany.

To obtain coal and other goods from Germany, Sweden originally sent horses, then foodstuffs, later manufactures, and finally iron ore. In return Germany sent potash, drugs, dyes, and soda. Sweden also entered into a commercial treaty with Russia in February, 1917, in which the exchange of specific quantities of goods was provided for. In 1915 and again in 1916 Sweden and Great Britain entered into similar arrangements, the first to provide for the transit of goods from England through Sweden, and the second to provide for the import of oils and cotton into Sweden.¹¹

Akin to the compensation treaty was Germany's demand on Holland for food in quantities which she estimated Holland ought to be able to furnish, before receiving any counter concessions

¹¹ *The Americas*, September, 1917.

from Germany. This demand included 60,000 cows, 3,000 horses, 2,000,000 eggs, 10,000 tons of cheese, 200,000 hides, 3,000 tons of sugar, 150,000 tons of fats, and considerable poultry. In addition, the Dutch colonies were to furnish quinine and a monthly credit of 7,000,000 florins (about \$2,800,000).¹²

The Franco-Spanish trade agreement signed on March 6, 1918, and effective until the end of the year, is a good example of the special trade agreements resulting from the war. The pre-war principle in trade was that every commodity was free to move except that which was subject to duty or embargo. The new principle set up during the war was that nothing was free to move except goods licensed for export or import. The licenses usually covered the minimum requirements necessary for life. The basis of bargaining was not only the offer of products peculiar to the country, but also the right of the country to exclude the products which the other party to the agreement wished to export.¹³

The situation was as follows: France needed metals, minerals, and wool from Spain, as well as a loan to pay for these articles, as her own products, which would ordinarily be exported to pay for her imports, were consumed in the manufacture of war goods. To obtain these concessions France offered specified quantities of goods which she needed herself but was willing to dispense with in order to obtain from Spain necessary commodities which were not as readily obtainable elsewhere. Again, France agreed to permit Spanish products to enter the French market, even though they were quite unnecessary in France, only because Spain must sell her surplus—for instance, wine, liquors, corks, and fruits. France needed and Spain agreed to export without restriction as to quantity lead, zinc, copper, pyrites, ores of all kinds and manufactured wool. In addition to the absolute permit, there was a contingent permit requiring the Spanish Government to allow exports to France in quantities equal to those obtained by any other nation from Spain. Contingent permits covered fab-

¹² *Standard Trade Digest*, July 12, 1918.

¹³ Commercial Attaché P. C. Williams, Paris, *Commerce Reports*, December 16, 1918.

rics, yarn, hemp, cotton and jute, shoes, iron, steel, and other metals and manufactures, railway cars, chemicals, rice, onions, potatoes, olive oil, figs, raisins, and canned goods. In return France agreed to permit absolutely the exportation to Spain of commodities which Spain needed and could not readily obtain elsewhere—in unlimited quantities, copra, to be transported in Spanish ships, and in limited quantities, phosphates, pitch, tar, charcoal, wool waste, tools and machinery, electrical goods, and scrap iron. Contingent permit for export was granted by the French Government for chemicals and drugs, repair parts for machinery and railroad equipment, silk and vegetable fiber. France also agreed to permit Spain to ship goods to Switzerland by way of France, and to permit Swiss goods to be shipped to Spain, as electrical machinery, knitting needles, and sugar beet seed.

A very important provision, however, was that Spain itself would provide credit to finance the imports of France from Spain in excess of her exports to Spain. The text of this part of the treaty reads:

"ART. XI. In order to facilitate the purchase of Spanish products and manufactured goods, the Spanish Government will authorize a consortium of Spanish bankers and merchants to open in favor of a consortium of French bankers monthly credits to be drawn on by the latter, which shall not exceed 35,000,000 pesetas per month during the last ten months of 1918, or a total of 350,000,000 pesetas for the year. These credits shall be guaranteed by deposit with the Bank of Spain of obligations of the French Treasury made out in pesetas payable in Spain and wherever possible of Spanish securities.

"ART. XII. The credits opened in the name of the French consortium shall be used exclusively to pay for Spanish products, the exportation of which to France is authorized by virtue of the present agreement. The Spanish Government may, if it deem necessary, require any individual or firm carrying on export trade with France to assist in furnishing the credits which shall be opened in the name of the French consortium."

(5) *Decentralization of Trade and Industry*

The war undoubtedly led away from the concentration of industry in certain parts of the world and tended to the decen-

tralization of commerce. The great manufacturing powers had to confine their industrial activity to war essentials. The shortage of cargo space made long voyages impossible. The result was a closer trade connection between neighboring countries and between countries bordering a common ocean. For instance, the trade of the United States with Mexico and Canada increased greatly. The same holds true for Great Britain and France, for Germany and Switzerland or Holland, and for the countries skirting the Pacific, whether in Asia, North America, or South America. This subject was treated above and will be further amplified in the chapters dealing with individual countries. Four typical examples may be presented here, however—the trade between Sweden and the rest of Europe, the trade between the Straits Settlements and other countries bordering the Pacific, and the decentralization of the world trade in toys and in chemicals.

Sweden experienced a tremendous increase in exports to other European countries, and only a comparatively slight increase in exports to non-European countries. Her imports from the rest of Europe increased a little, but her imports from other foreign countries increased to a larger extent. The table follows:¹⁴

SWEDEN'S FOREIGN TRADE, 1912-1916.

[Values in thousand kronen.]

Year	European Countries		Non-European Countries	
	Value	Per cent.	Value	Per cent.
IMPORTS.				
1912.....	676,286	86	108,581	14
1913.....	718,747	85	127,791	15
1914.....	603,334	83	123,574	17
1915.....	608,217	61	444,278	39
1916.....	822,840	73	315,727	27
EXPORTS.				
1912.....	665,064	87	95,562	13
1913.....	717,046	88	100,301	12
1914.....	689,256	89	83,099	11
1915.....	1,243,109	94	73,255	6
1916.....	1,421,747	91	134,630	9

Of course much of the increase in exports of Sweden to other European countries was due to temporary war needs. To a con-

¹⁴ *Svensk Export*, July, 1918.

siderable extent also Sweden was used as a forwarding agent of Germany. However, the increase represents in part a permanent gain in Sweden's trade with the rest of Europe in so far as she developed new industries that will be in a favorable position to serve her European neighbors.

Imports into the Straits Settlements from the United Kingdom and other European countries declined, whereas those from Japan, the United States, Australia, New Zealand, Canada, the Dutch East Indies, Siam, British India, and French Indo-China increased considerably. The chief increases in imports from the United States were in machinery, motor cars, iron, steel, and hardware, cooking utensils, paper and stationery, condensed milk, and cigars and cigarettes. Imports from Japan increased in cabinet and wooden ware, crockery and porcelain, bicycles, chemicals, coal, matches, apparel, and wheat flour.¹⁵ The exports from the Straits Settlements show a tendency to increase more rapidly for near-by countries than for distant ones.

FOREIGN TRADE OF THE STRAITS SETTLEMENTS, 1916-1917.¹⁶

[Figures in thousand dollars; 000 omitted.]

Country	1916	1917
IMPORTS.		
Increases:		
French Indo-China.....	\$7,994	\$10,522
British India and Burma.....	26,971	34,180
Australia and New Zealand.....	3,316	5,439
Japan.....	12,941	19,717
United States.....	6,777	9,446
Decreases:		
Sweden.....	236	91
Netherlands.....	1,516	444
Italy.....	2,553	1,270
Egypt.....	243	190
United Kingdom.....	27,385	27,276
EXPORTS.		
Near-by Countries:		
Japan.....	\$6,633	\$10,137
United States.....	76,341	117,569
Distant Countries:		
United Kingdom.....	53,123	56,315
France.....	6,395	8,614

¹⁵ *Commerce Report*, Supplement 56A, Jan. 22, 1919.

The same tendency toward the decentralization of trade is revealed in the commodity movements between countries. Germany, which had formerly been the world's center for the production of toys, has been displaced primarily by Japan and to a less extent by newly established local industry in the various countries. In 1913 Germany's total exports of toys were valued at \$24,594,000, of which \$7,736,000, or 31 per cent, were sent to the United States and \$6,111,000 or 25 per cent to the United Kingdom. Imports into the United States in the fiscal year ending June 30, 1914, amounted to \$9,084,000, of which Germany supplied \$7,719,000, or 85 per cent, the United Kingdom \$424,000, or 5 per cent, and Japan approximately the same, \$437,000. As a result of the exclusion of German toys, the American industry was stimulated to supply the needs of the domestic trade and to make possible an increase of toy exports from the United States. American toy imports for the fiscal year 1917 declined to \$1,442,000, a decrease of 84 per cent from the imports for 1914. Of this total, Japan supplied \$1,206,000, or 84 per cent of the total. In the meantime, American exports rose from \$809,000 in 1914 to \$1,806,000 in 1917, shipments to Canada alone increasing from \$350,000 to \$706,000. Similar increases occurred in the exports to Cuba, Argentina, and Australia.

The United Kingdom, which in 1913 had bought \$5,769,000 worth, or 81 per cent, of her total imports of toys from Germany, turned to her native manufacturers and to France for her supply. The latter country furnished 85 per cent of the total imports, or \$1,071,000 worth, to the United Kingdom in 1917.

The extent to which Japan has replaced Germany as a toy exporter is evident from the following figures showing exports of Japanese toys in recent years (figures in thousand dollars; 000 omitted):

1910.....	746	1914.....	1,291
1911.....	941	1915.....	2,258
1912.....	945	1916.....	3,805
1913.....	1,240	1917.....	4,188

The increase was due largely to trade with the countries bordering the Pacific. The percentage of the total toy exports of Japan for 1913 and 1917 were for:¹⁶

Country	1913	1917
United States	33%	44%
Australia	3	14
British India	11	8
Canada	2	5
United Kingdom	13	2

Another group of commodities in which changes in world trade are to be noted is chemicals.¹⁷ In the trade in bleaching powder, for instance, Germany had attained a dominant position, producing chlorine from the potash salts of Stassfurt. America was her principal customer. The war eliminated German bleaches from the American market and their place was taken by American bleaches produced at Niagara Falls from common salt. The United States was able not only to supply her own need but to export considerable quantities. Similarly, Japan developed a local chlorine industry so that in 1916 she exported about 3,000 tons, or five times as much as in 1913.

In the case of sulphuric acid we find a similar situation. Germany was the chief exporter, sending abroad in 1913 80,000 tons out of her total production of 1,650,000 tons. However, as a result of the war, the production of sulphuric acid in the United States rose from 3,500,000 tons in 1913 to 7,000,000 tons in 1917, and in Japan from 75,000 to 600,000 tons.

The world's trade in nitrates was also profoundly affected by the war. Chile is the chief producer of nitrates. As a result of the war Germany built up the artificial-nitrate industry to an estimated production of 600,000 tons a year, and Norway and Sweden with their cheap hydro-electric power developed a production of about 400,000 tons a year. The world's annual consumption before the war was 2,653,000 tons. While the question

¹⁶ "Changes in the World's Toy Trade." *Commerce Reports*, Jan. 30, 1919.

¹⁷ *The Americas*, December, 1917.

of comparative costs is still to be determined, yet if a continuation of wars is to be provided for and if nitrate must be produced as a war necessity, the governments may charge the high cost of domestic nitrates to the budget for national defense. At all events, there has undoubtedly been a permanent change in the currents of nitrate trade of the world.

(d) *International Economic Coöperation*

But if the war has increased the decentralization of industry and resulted in greater national economic independence, it has on the other hand afforded unique examples of the benefits of international coöperation. Indeed, it has demonstrated that in the great crisis joint economic action was indispensable.

To eliminate the disadvantages of bidding against each other, the Allies organized in 1914 the Commission Internationale de Ravitaillement. To fight a world war which drew upon the world's resources, it was necessary to have an international organization. The Commission Internationale de Ravitaillement resulted from an agreement at a meeting held on August 13, 1914, between delegates representing the French Ministers of Finance, War, and Marine, and representatives of the British Foreign Office, Treasury, Admiralty, War Office, and Board of Trade. The functions of the commission were to coördinate purchases of munitions, military and naval equipment, and food supplies by the two governments, so as to prevent competition in the same markets and consequent inflation of prices. As the war went on, the other governments were invited to appoint delegates so that in July, 1918, the organization included representatives of Belgium, Serbia, Russia, Italy, Roumania, Japan, Portugal, Greece, the United States, and Brazil.

The duties of these delegates were to formulate and present to the British Government ¹⁸ the requirements of their own governments for supplies, finance, and tonnage; and to ascertain how they may be met; to advise as to priority of manufacture and

¹⁸ From the Report of the Committee on Commercial and Industrial Policy After the War.

shipment; to sign and approve contracts; to authorize payments by the British Government for the account of Allied Governments; to inspect materials delivered, etc. The delegates included the representatives of various Allied Governments on joint committees such as the Inter-Allied Wheat Executive, the Inter-Allied Meat and Fats Executive, the Nitrate of Soda Executive, and other inter-allied bodies connected with finance and shipping. In order to unify further the activities of the Allied Powers and eliminate conflicting requirements, a further coördination was achieved in October, 1918, which unified the control of raw materials, manufactured products, shipping, finance, food, and exports and imports. The Inter-Allied Finance Commission, the Inter-Allied Shipping Council, and the Inter-Allied Boards of War Trade, coördinated the economic activities needed to conduct the war.

From time to time plans have been projected for a continuation of an Inter-Allied Economic Commission after the war, or at least during the reconstruction period. In the words of the political editor of the Temps, "More than ever must France remain in close union with her companions in arms. To be efficacious this union must be general. It is not alone the European Allies which must remain hand in hand. The rôle of the United States, which was decisive in the later stages of the war, is no less decisive in preparing for peace."¹⁹

B. Foreign Commerce and National Economics

(i) International Influences in Trade

(a) Pre-war Influences

The very concept of trade assumes international relations. It is opposed to the hyper-nationalism of the "closed state." International commerce is one of the powerful bonds which ties the world together in myriad inter-relations. Because of the organic unity of international commercial relations many regarded a great war as impossible. The many elements of economic life are

¹⁹ *New York Times*, Dec. 2, 1918.

so diversified as to compel men in all parts of the world to coöperate. The mineral resources of the world are widely scattered. The climate of no one country is so varied as to embrace all the fauna and flora upon which its population has come to depend for food and clothing. In addition, the peoples of the world differ in their types of mind and aptitudes. Each is distinctive and serves best in a special capacity. Industrial tradition and craft skill are therefore localized. Man is a particularist in production, and a universalist in consumption, was the phrase of the late E. B. Andrews. The trade statistics of the world show the infinite complexity of commercial relations. There probably is no country on the face of the earth which does not directly or through transshipment import from or export to every other country. The needs of the nations are reciprocal. A highly developed country like Germany, for instance, before the war, gathered raw materials from the four corners of the earth, transshipped part of them, and manufactured or consumed the rest of them. The industrial countries depended upon others for much of their raw materials and the immature countries looked to the manufacturing nations for their finished goods.

Among the manufacturing nations themselves the streams of commerce were very broad. Indeed the development of Germany enriched France and England. Commerce was free from boycotts and the other artificial restrictions that are regarded as possible elements in the after-war trade policies. Shipping service was international. England, Germany, France, and Holland carried the bulk of the world's goods, serving each other as well as the nations that had few or no shipping facilities. Investments were international. The rich countries of Europe had poured out their savings practically without regard to national lines. Great Britain and Germany were to be found working side by side in South America as well as in the British Possessions. In truth, so widespread was the international conception in commerce that Germany was able to insinuate herself into the internal life of the other powers, great and small. She manufactured their dyes, their lenses, and their specialty goods. She transported their commodities. She directed their banks. Germany's amazing

progress since 1870 is the most convincing evidence of the prevalence of the international mind in the world of commerce.

(b) *War-time Influences Favoring Internationalism*

The economic blockade of Germany and her allies was merely the logical extreme of the conception of the "closed state." How thoroughly the various parts of the world were inter-related is strikingly proved by the vigorous efforts that Germany made to have the blockade lifted, first through appeals to international law, then through threats, and finally through resort to force and the employment of the murderous submarine against neutral noncombatants. Existence in economic isolation is impossible for any country. During the war, when trade was limited by the belligerents, the very existence of the population was threatened in some countries. Neighboring states entered into special trade agreements, like that cited above. A new type of commercial treaty involving "compensation" trades had to be devised, so as to supply the countries affected with their minimum requirements for existence. Again, the failure of the much vaunted substitutes bears eloquent testimony to the essential economic interdependence of the nations of the world. On the other hand, the success attending the coöperation of the Allies, in spite of the scarcity of raw material and of foodstuffs, was another war-time proof of the necessity for economic internationalism. Even the after-war programs bear witness to the error in concept of the self-sufficient state. The Allies at the Paris Economic Conference threatened to use the economic boycott against the Central Powers after the war. The decision produced consternation in Germany and aroused considerable thoughtful opposition on the part of economists in both England and France. It was felt that the hundred odd million people in Central Europe could not be shunted out of the world's trade currents without a reaction upon the prosperity of the boycotting powers. Economists in Allied countries insisted that the boycott would be a boomerang. A four-years' blockade has seared into the hearts of Central Europe a sense of the international community of inter-

ests. The Allied peoples have learned the same lesson, although less painfully.

It would be useless to deny, however, that the war has promoted the economic independence of many countries. New sources or substitutes were found for many raw materials. New industries were established. The concentration of industry in a few of the older countries was diminished and countries formerly dependent upon them became self-sufficient with respect to particular commodities. Commerce and industry tended to become decentralized during the war.

However, the nationalistic idea in commerce may be carried to an extreme. The Germans, for instance, still think that instead of proving the basic internationalism of commerce the war demonstrated the need for greater economic independence. Indeed, Moritz Bonn, professor at Munich, states that the war showed the necessity for large empires.²⁰ He also asserts that belief in the benefits of international finance is a dangerous delusion and that the war has proved the need for confining investments to the domestic market.²¹ The same view is expressed by another German writer who shows that the advantages that Germany expected to derive from foreign investments did not materialize under the test of war. Germans had believed that foreign investments would help maintain the rate of exchange and create a reserve in the event of war. He concludes that German investments in English securities or in colonial enterprises should be avoided after the war, and that in future all surplus wealth should be retained for domestic uses.²² Underlying this point of view, however, is the basic assumption that the investing nation contemplates military aggression. The two thoughts are incompatible, for trade is an affirmation of internationalism of which war is the negation. Forty years of international commerce made possible the unparalleled development of Germany. Fifty-two months of war caused her complete collapse.

²⁰ *London Economist*, Dec. 22, 1917.

²¹ *American Academy of Political and Social Science*, Nov., 1916.

²² *Norddeutsche Allgemeine Zeitung*, Jan. 19, 1918.

Internationalism is the essence of trade. Trade fosters internationalism.

(ii) *Economic Nationalism vs. Economic Internationalism*

In much discussion of the economic effects of the war and in the formulation of the after-war programs, the hypothesis seems to be that the economic condition of countries is fixed. Holland is regarded as a mature country, India as an undeveloped country. Great Britain is international in its attitude, Germany exemplified economic nationalism. The British Empire typified free trade and Germany, protectionism. However, it is erroneous to conceive of the economic state in terms of fixed conditions or permanent policies. The static view of economics muddles thinking and confounds policies.

As regards this point a fruitful theory was set forth almost a hundred years ago by Friedrich List. This theory in brief is that backward countries may be made to develop into industrial centers by pursuing at each stage of the development a special economic policy, with free trade for the completely industrialized state as the final goal. A brief summary of his views in his own words is given herewith.²³

"In national economic development we must distinguish the following states: The savage, the pastoral, the agricultural, the agricultural-manufacturing, and finally the agricultural-manufacturing-commercial. Obviously, the nation which, possessing an extensive territory endowed with many natural resources, combines agriculture, manufacture, shipping, and home and foreign trade, is incomparably more civilized, politically advanced, and powerful than a merely agricultural state. Manufactures are the

²³ "Outlines of Political Economy," in a series of eleven letters written at Reading, Pa., from July 10, 1827, to July 29, 1827, by Friedrich List, Esq., late Professor of Political Economy at the University of Tübingen, to Charles J. Ingersoll, Esq., vice-president of the Pennsylvania Society for the Promotion of Manufactures and Mechanic Arts, originally published by Samuel Parker, 48 Market Street, Philadelphia, Pa., 1827. Quoted from "Introduction to the National System of Political Economy," from the Life of Friedrich List, by Margaret E. Hirst, London, Smith Elder & Co., 1909.

basis of internal and external trade, of shipping, of improvements in agriculture, and consequently of civilization and political power.

"Four distinct periods may be recognized in the economic development of nations by means of international trade. In the first, home agriculture is fostered by the importation of foreign manufactured goods and the exportation of agricultural products and raw materials. In the second, home manufactures arise by the side of foreign imports. In the third, home manufactures supply the greater part of the home market. In the fourth, large quantities of home-manufactured goods are exported and raw materials and agricultural products imported from abroad.

"History affords striking examples of whole nations falling into ruin because they did not know how to undertake at the right moment the great task of planting their own manufactures, their industry and their commerce, by which they could insure to themselves intellectual, economic, and political independence.

"Poor, weak, and barbarous countries have, mainly as a result of wise commercial policy, become empires abounding in wealth and power, while other countries, for opposite reasons, have sunk from a high level of national importance into insignificance. Nay, in some instances nations have forfeited their independence and political existence mainly on account of a commercial policy which was unfavorable to the development and encouragement of their nationality.

"Every nation, which attaches any value to its independence and continued existence, must strive to pass with all speed from a lower stage of culture to a higher, and to combine within its own territory agriculture, manufactures, shipping, and commerce. The transition from savagery to the pastoral state, and from the latter to the agricultural state, are best effected by free trade with civilized, that is, manufacturing and commercial nations. The transition from an agricultural community into the class of agricultural-manufacturing-commercial nations, however, could take place under free trade only if the same process of development occurred simultaneously in all nations, if nations put no hindrance in the way of one another's economic development, if they did not check one another's progress through war and tariffs. But since individual nations, through specially favorable circumstances, gained an advantage over others in manufactures, trade, and shipping, and since they early understood the best means of getting and maintaining through these advantages political ascendancy, they have accordingly invented a policy which aims at obtaining a monopoly in manufactures and trade and at checking

the progress of less advanced nations. The combination of the details of this policy (prohibition of imports, import duties, restrictions on shipping, bounties on exports) is known as the tariff system.

"The productive powers of nations are limited not only by the industry, thrift, morality, and intelligence of its individual members and by its natural resources or material capital, but also by its social and political laws and institutions, and especially by the security it possesses for continued existence, independence, and power.

"In national economy, the effect of measures and of events on the condition and on the arts of individuals, is as different as the circumstances under which the different nations live. In general, all that can be said is this, that if measures promote the productive power of the nation, they are beneficial; otherwise they are not. Every nation must follow its own course in developing its productive powers. In other words, *every nation has its particular political economy.*

"Further, conditions and events may be profitable in individual economy for some persons and injurious to the community or they may be injurious to individuals and prove highly beneficial to the community. *Individual economy is not political economy.*

"So also measures and principles may be beneficial to mankind, if followed by all nations, and yet prove injurious to some particular countries, and *vice versa*. *Political economy is not cosmopolitical economy.*

"National economy teaches by what means a nation in a particular situation may direct and regulate the 'economy' of individuals, and restrict the economy of mankind, either to prevent foreign restriction of its power or to increase its own productive powers; or in other words to create a world in itself, in order to grow to be one of the powerful and wealthy nations of the earth.

"Government has not only the right, but it is its duty, to promote everything which may increase the wealth and power of the nation, if this object cannot be effected by individuals. Therefore it is its duty to guard commerce by a navy, because the merchants cannot protect themselves. The shipping interest and commerce must be supported by breakwaters; agriculture and every other industry by turnpikes, bridges, canals, and railroads; new inventions by patent laws. Manufactures must be raised by protecting duties, if foreign capital and skill prevent individuals from undertaking them.

"Maintenance and development of the national spirit is and

must be a chief object of national endeavor. It is no wrong and selfish aim, but a rational one, in perfect harmony with the true interests of mankind in general. It leads naturally to an alliance of nations under the reign of law, a world-wide union, which can only contribute to the well-being of the human race if it is realized in the form of a confederation. A union proceeding from the overwhelming political strength and wealth of a single nation, and thus basing itself upon the dependence of all other nations would, on the contrary, result in the destruction of all national characteristics and all international emulation. It is opposed both to the interest and sentiment of nations, since they all aspire to independence and the attainment of a high level of wealth and political importance. Such a union would only be a repetition of the former attempt by Rome, carried out indeed by means of manufactures and commerce instead of by the cold steel of former times, but none the less leading back to barbarism. The civilization, political development, and strength of nations are dependent on their economic circumstances. The converse is also true. The more its economy is developed and perfected, the more civilized and powerful is the nation. The higher the level of its civilization and power, the higher the level of its economic development.

"The highest association of individuals now realized is that of the state, the nation; and the highest imaginable is that of the whole human race. Just as the individual is happier in the bosom of the state than in solitude, all nations would be more prosperous if they were united together by law, by perpetual peace, and by free interchange.

"History teaches us that in a state of war human welfare is at its lowest degree, and that it rises in proportion as the associations of society increase. In a primitive state of the human race, we find only families; afterwards come cities, then confederations of cities, then the union of a whole country, and, finally, the association of many states under one constitution. If the nature of things has been strong enough to extend to hundreds of millions the associations which commenced with families only, we may imagine that its energy might suffice to effect the union of all nations.

"An universal republic, that is, an association in which all nations should mutually acknowledge the same legal authority and renounce the right of using force, as between themselves, is realizable only so far as a certain number shall have reached the same, or nearly the same, degree of industry, civilization, political education, and power. Free trade can be extended only by the

gradual progress of such an union; it is only by it that nations can obtain the great benefits of which associated states and provinces offer us in our time such an example. The protective system is the only means by which nations less advanced can be raised to the level of that nation which enjoys a supremacy in manufacturing industry—a monopoly not conferred by nature, but seized by being first on the ground; the protective system, regarded from this point of view, will be the most effective promoter of universal association among nations, and consequently, free trade. And from this point of view, political economy is a science which regards existing interests and the special condition of nations, shows how each one may arrive at that degree of economical development to which association with nations of equal culture and advantages, free trade included, may by any possibility carry a nation."

(iii) *Economic Protectionism*

At the time that List wrote, industrial Germany had not yet come into being. However, in the process of development Germany undoubtedly was actuated by the principles based on List's theory. The practical application vindicated the theory and it was further developed in the light of twentieth century experience by Joseph Grunzel.²⁴ The following is a summary of his main theme, and covers the origin and effects of economic protectionism:

(a) *Origin and Nature of Economic Protectionism*

Economic protectionism is the sum total of the measures adopted by the national-economic unit for the purpose of advancing its interest in the field of world economy. It is applicable to all nations mature or undeveloped. By means of it they should all become centers of industry.

Historically, there were three schools of economic thought, which differed in their emphasis on national and world economy. The mercantilist school taught that a nation should sell as much

²⁴ Joseph Grunzel, "Economic Protectionism," edited by Eugene Phillipovitch von Phillipsburg, Tübingen, Oxford University Press, 1916.

and buy as little as possible, so as to accumulate a favorable balance of exports. The physiocratic-classical school believed that each country was favored in some particular way, that it should specialize in those industries which it was best fitted for so as to produce at a low cost, and thus lead to a world interchange of goods, that is to world economics. Finally, there was Fichte's conception of the "closed commercial state," a socialist community, economically independent of foreign countries and highly organized with this end in view.

At present there are three schools with similar lines of division. The national economists would isolate the state by means of economic restrictions. The world economists would bring about a fusion of the various national economic units. The third school believes that both the national economy and the world economy may exist side by side. The national economists would have each country be self-sufficient, or as Kropotkin says, "each nation is to be its own farmer and its own manufacturer." They think that the various countries will work up their own raw materials instead of sending them abroad and thereby increase their populations, which should consume the food raised at home. The world economists look to an interlacing of interests resulting from the extension of the economic activities of individuals beyond the national boundaries. The concept is best expressed in the German term *Weltwirtschaft*, for which there is no English equivalent. World economy is regarded as the highest stage of development. List, the father of the idea of national economy, regarded the nationalistic stage as part of the transition to world economy. The third school, which contemplates a parallel development of national and world economy, teaches that international relations are not regulated according to international ideals but according to the will of the nations concerned. The agreement may be international in scope; the underlying economic policy is national, however. Whereas the national economic unit is an organism ruled by national will, the economic world represents not a world will but merely a community of trade relations. However, since world economic relations are increasingly being regulated by agreement, an independent worldwide

economic organism with a "unified political constitution" may ultimately come. The relation between the two economies is evolutionary rather than static.

(b) *The Effects of Economic Protectionism*

(1) *National*

Economic protectionism is a means of consolidating and unifying a country, of fostering its development in accordance with its own laws, and of warding off danger from without. Free trade assumes that natural conditions govern production. Economic protectionism assumes that artificial conditions govern production. As evidence be it noted that production takes place not at the point of origin of the raw materials, but at the place where the market for the product exists. Italy, for instance, does not restrict her activity to producing wines and fruits, but cultivates industries based on coal, cotton, and wool, all of which are imported.

The reciprocal dependence of agricultural and manufacturing countries marks a temporary stage in the economic development of both. The process of industrialization or the development of manufactures enables a country to obtain a maximum of product from a minimum of land area and a minimum of labor. It improves the standard of living, because capital increases more rapidly than population. The world's commerce doubled from 1890 to 1914, whereas the population increased only ten per cent. It increases the stability of economic conditions, for it makes them less dependent upon weather and the elements. It promotes culture, for it substitutes mental effort for physical effort, and provides leisure for recreation. Protective tariffs make industrialization possible, for the process depends not only upon the natural resources of a country but upon the energy of its people as well.

(2) *International*

Economic protectionism is, in its effects, not only national, but also international. It promotes a growth of world economy, for

it leads to an increase in world economic relations. The process of industrialization leads to specialization and to continuous production at decreasing prices. It therefore requires a larger export field for the country in which it takes place. The dependence of nations upon each other increases, but its character becomes diversified and it is extended to a greater number. The multiplication of trade connections decreases a country's dependence upon any other country. For instance, in 1880 the United States took 20 per cent of the total foreign trade of the United Kingdom, but only 15 per cent in 1910. In 1860, Holland furnished 20 per cent of Belgium's imports, in 1910 only 9 per cent. Serbia's imports from Austria-Hungary decreased from 86 per cent of her total imports in 1884 to 24 per cent in 1892, and her exports to Austria-Hungary declined from 66 per cent of her total exports in 1884 to 31 per cent in 1892. Economic protectionism tends toward an equalization in the mutual dependence of nations. Production becomes distributed. The world has become less dependent on England for its iron, on Europe for its wool, on Brazil for its rubber. It is attempting to free itself from dependence upon American cotton.

The process of industrialization leads to an increase in the number of conflicts of interest between nations. Tariff laws, restrictions on the movement of populations, the setting of railroad rates on foreign goods crossing national boundaries, and the regulation of the investment of capital, all features of the process of industrialization, make for international differences. However, economic protectionism also strengthens the international community of interest. The world's trade is carried on chiefly between the matured manufacturing countries. They trade more with each other than with the backward raw-material countries. Yet the percentage of the total trade with any one country is less for the industrial countries than for the raw-material countries. France was less dependent upon Germany than was Russia. Canada is less dependent on the United States than is Mexico. As economic protectionism extends and strengthens the community of interest, it becomes increasingly dangerous to destroy it. Therefore international agreements of all kinds are multiplied to

provide for the increasing number of points of contact between the industrialized nations.

In conclusion national economy and world economy are not opposed. As Grunzel says, "He benefits the world most who best serves his own people."

(iv) *National Economics in Great Britain*

The theories of national economics aroused attention outside of Germany. Several British economists, notably W. H. Dawson, trace the rise of modern Germany to the application of List's principles. They also attribute the lesser growth of Great Britain to the failure to formulate a conscious economic policy. However, the war has jolted commerce and industry so hard, has developed so many new industries for the products of which Great Britain was formerly dependent upon other nations, that economists have taken an inventory, as it were, of accepted theories. They point out the weak points in the theory of internationalism on which England's pre-war trade was based and attempt to inject into a possible British policy some of the elements of the theory of the self-sufficient state.

As one writer expresses it:

"The science of political economy as we know it in this country to-day is a dead science. It has been emphasized more in recent years by reason of the great advance that has been made in the sciences of education, production (in which are included industry and agriculture), chemistry, transportation, and banking, not only in this country, but in America and Germany.

"Every article of utility that is produced is influenced by these five sciences. For instance, to produce successfully, you must first of all have education; secondly, you must have the latest experience and knowledge in method of production, and also the latest and most modern machinery to assist you; thirdly, you must have the technologist or analytical chemist to assist you in obtaining the best possible materials; fourthly, you require the services of the transportation companies in carrying or shipping your goods to those who desire them; and fifthly, you need the banker or capitalist to finance your total operations with the greatest possible facility.

"The state therefore should become the guiding or directing

spirit in placing each phase of national activity in its proper relation to the other, particularly as regards efficiency; then whatever portion of the total that manufacturers might consume they could at any rate rely upon having the best possible value for their money. In other words, the state should give direction, both as to object and policy, to our natural tendencies and not allow them to drift forward in the world of commerce as an incoherent mass. It must be obvious to business men that each phase of our national life is influenced by the weakest member. Further, if the tendency of one phase is toward a course diametrically opposed to that which is being pursued by the remainder, then there must occur a great waste of natural energy and wealth.”²

The agitation for tariff reform, for the perpetuation of industries established during the war, for the limitation of freedom of aliens in British enterprises and for other restrictions on the pre-war liberal policy are the results of a new attitude toward trade problems in the development of which the German theories of economic protectionism undoubtedly played a part.

C. After-War Policies

The far-reaching changes outlined above have turned the minds of commercial Europe to the future. German merchants whom the blockade forced into idleness indulged in endless speculation as to what was likely to happen after the war and formulated numerous schemes to meet possible contingencies. British and French merchants, whose trade was restricted and who saw the neutrals or inactive belligerents obtaining control of trade in various commodities, have also made plans for business after the war. In addition, the war has led to the development of new industries which face severe competition from German competitors who supplied the products before the war.

(i) Economic Nationalism

The measures contemplated fall into two classes. In the first are those measures which look toward a more narrow trade pol-

² J. T. Peddie, "National System of Economics," E. P. Dutton & Co., New York. See also his "On the Relation of Exports and Imports." J. M. Robertson, "Economics of Progress," E. P. Dutton & Co., New York, 1918.

icy such as the boycott, which is contemplated in the Paris Resolutions, in the report of Lord Balfour's Committee on Commercial and Industrial Policy After the War, and in the Imports Control Bill. In addition, there is the determination on the part of Great Britain and France to become independent of foreign manufactured goods, especially German products. Colonial preference as a nationalist policy is strongly urged. And finally, it is proposed to discriminate against German subjects who attempt to do business in the Allied countries.

In the second class are those measures which make for greater international coöperation, advocated by many economists and merchants, and by liberal statesmen.

(a) *The Boycott*

The Economic Clauses, Part X, of the Treaty of Peace with Germany, bind Germany to refrain from a boycott of the Allied and Associated Powers and to extend most favored nation treatment to them. However, it leaves the Allied and Associated Powers free to put into effect any restrictions on trade whatsoever. While the Paris Resolutions may be dead as a joint policy of the Allies, the agitators for a boycott of Germany are by no means silent. A discussion of the economic theory of the boycott is therefore appropriate.

The boycott is the commercial hymn of hate. Although it may deal with peace conditions, it is the expression of the psychology of war. It is a matter of sentiment, not of reason. When the Hun Zeppelins were bombarding Paris, when the murderous U-boats were destroying merchantmen, there arose all over England and France a chorus of vows and pledges not to trade with Germans and not to communicate with German seamen, and not to admit Germany into international intercourse after the war. These were not deliberate programs capable of execution, but rather impotent reactions against the unheeding ruthlessness of German warfare. Commercially considered, they were the empty gesture of anger which had no effective outlet.

British societies were formed to boycott German goods. Frenchmen also banded themselves together under a common pledge not to treat with the enemy. When in calmer moments both had seen the folly of the movement, the United States passed through a similar stage of passion. A boycott committee of the American Defense Society was formed. A representative in Congress seriously introduced a bill in the beginning of 1918 to create the mechanism of a boycott of Germany by punishing Americans trading with Germany after the war. The Chamber of Commerce of the United States as a result of a referendum decided in favor of an international commercial boycott to safeguard peace. Indeed, in all the Allied countries and the United States there were over 100 societies whose object was to keep out German goods, German ships, German investments, and German subjects.²⁰

Lord Robert Cecil advocated an economic boycott also. However, his motive was not revenge or punishment for past deeds, but rather a threat and a warning to prevent breaches of the rules of a league of nations. Equivalent to the boycott is the deceptive proposal that the league of nations be constituted with a restricted membership, confined to the present Allies and the United States, or at least excluding the Teutonic Powers. The policy of commercial exclusion on the part of the Allies called forth a counter policy of exclusion on the part of the Central Powers. Friedrich Naumann's scheme of Mittel-Europa gained greatly in popularity as the result of the boycott propaganda in the Entente countries. Impressed with an elusive touch of reality by the German military successes in 1916, the Mittel-Europa scheme became after the Paris Economic Conference a grimace of Central Europe retorting to the shaken fist of the Allies.

(1) *The Paris Resolutions*

Although there had been unofficial propaganda favoring a post-bellum boycott of the Central Powers, dating back almost to the

²⁰ *New York Times*, Feb. 18, 1918; Nov. 5, 1918; *Journal of Commerce*, Oct. 14, 1918.

beginning of the war, no official action was taken until the adoption of the Paris Resolutions on June 17, 1916.. The representatives of the Allied governments announced that

"the Empires of Central Europe are to-day preparing, in concert with their allies, for a contest on the economic plane which will not only survive the reestablishment of peace, but will at that moment attain its full scope and intensity.

"The agreements prepared for this purpose between our enemies have the obvious object of establishing the domination of the latter over the production and the markets of the whole world and of imposing on other countries an intolerable yoke.

"In the face of so grave a peril, the representatives of the allied governments consider that it has become their duty, on grounds of necessary and legitimate defense, to adopt and realize from now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and, on the other hand, to facilitate the organization, on a permanent basis, of their economic alliance."

The measures resolved upon covered, first, the war period, second, the period of transition and reconstruction, and third, the period of stability or of normal times. The boycott provisions of the Paris Resolutions which are given under the head of "transitory measures for the period of commercial, industrial, agricultural, and maritime reconstruction of the Allied countries," are as follows:

"II. Whereas the war has put an end to all the treaties of commerce between the Allies and the enemy powers, and whereas it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the enemy powers to most favored nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those powers during a number of years to be fixed by mutual agreement among themselves.

"During this number of years, the Allies undertake to assure to each other, so far as possible, compensatory outlets for trade in case consequences detrimental to their commerce result in the application of the undertaking referred to in the preceding paragraph. * * *

"IV. In order to defend their commerce, their industry, their agriculture and their navigation, against economic aggression resulting from dumping or any other mode of unfair competition, the Allies decide to fix by agreement a period of time during which the commerce of the enemy powers shall be submitted to special treatment and the goods originating in their countries shall be subjected either to prohibitions or to especial régime of an effective character."

(2) *The Balfour Report*

In July, 1916, Prime Minister Asquith appointed a committee on Commercial and Industrial Policy After the War, of which Lord Balfour of Burleigh was chairman. Its specific duties were "to consider the commercial and industrial policy to be adopted after the war, with special reference to the conclusions reached at the Economic Conference of the Allies, as well as the following questions:

"(a) What industries are essential to the future safety of the nation, and what steps should be taken to maintain or establish them.

"(b) What steps should be taken to recover home and foreign trade lost during the war, and to secure new markets.

"(c) To what extent and by what means the resources of the Empire should and can be developed.

"(d) To what extent and by what means the sources of supply within the Empire can be prevented from falling under foreign control."

A series of interim reports was submitted from the fall of 1916 through the spring of 1917. A final report was submitted on December 3, 1917. The attitude of the committee on the question of the boycott is stated in the Summary of Conclusions of the Final Report, Chapter III, (a), (b), (d) and Chapter IX, (5):

"The present régime, whereby importation of goods of enemy origin is prohibited, should be continued subject to license in exceptional cases, for a period of at least 12 months after the conclusion of the war, and subsequently for such further period as may seem expedient.

"The Paris Resolutions relating to the plans of the Allies for

the restoration of their industries can be carried into effect if a policy of joint control of certain important commodities can be agreed upon between the British Empire and the Allies. Any measures should aim at securing to the British Empire and the Allied countries priority for their requirements and should be applied only to materials which are derived mainly from those countries and will be required by them.

"We point out that the prolongation of the war and the entry into it of the United States have increased the importance of a considered policy directed toward assuring to the British Empire and the Allies adequate supplies of essential raw materials during the period immediately following the conclusion of peace, and that the extent to which the Paris Resolutions which bear upon this vital question can be carried into effect, depends upon the co-operation of the governments concerned.

"Subject to agreement with our Allies in the matter, present enemy countries should not, for a time at least, be allowed to carry on trade with the British Empire in the same unrestricted manner as before the war, or on terms equal to those accorded to Allies or neutrals."

(3) *Exports and Imports (Temporary Control) Act*

One of the interim reports of this committee, presented in 1916, covers the treatment of exports.²⁷ The report, whose scope is defined as "the treatment of exports from the United Kingdom and British overseas possessions, and the conservation of the resources of the Empire during the transitional period after the war," follows in abstract:

A General Survey

The problem presented to the Committee appeared to them to involve the following considerations:

(1) The extent to which the competition of enemy trade can be affected by restriction of exports from the United Kingdom.

(2) The danger of shortage of important commodities produced in Great Britain or the Empire, or stored therein during the war, which might be required for provisioning the population and maintaining manufactures.

²⁷ *Board of Trade Journal* for May 9, 1918.

(3) The supply of the Allies for the restoration of their industries as laid down in Resolution B. III of the Transitory Measures of the Paris Conference.

As regards (1) the Committee is unanimously desirous of doing everything practicable during the transitional period to prevent the enemy countries from obtaining an unfair advantage over the British Empire and over our Allies, whose industries have been seriously damaged. . . . It is obvious that effective control can only be exercised over products in which Great Britain and the British Empire have a virtual monopoly. Any attempt to restrict the exportation of products in which this is not the case would merely tend to develop the supplies from other sources, and might have far-reaching effects detrimental to British trade after the conclusion of the transitional period.

As regards (2) the first and most obvious course would be to continue the present régime so far as enemy countries are concerned, that is, a general prohibition of exports from the United Kingdom to enemy countries, exceptions being permitted only under license. This policy, although superficially attractive, presents the difficulty that, if exports to neutral countries are permitted without restriction, enemy traders will be able to provide themselves through such sources at little, if any, additional expense. Unless it be proposed to continue a system of rationing neutral countries, such a policy would merely have the effect of appearing to do something, while in reality achieving no useful result.

(3) The resolutions adopted at the Economic Conference held at Paris bearing upon the matter are Numbers B. I and III of the Transitory Measures.

It appears to us that effect cannot be given to these (Paris) Resolutions unless export restrictions are placed during the transitory period upon a certain number of important articles. We consider that any measures undertaken for the purpose should aim at assuring the British Empire and the Allies priority for their requirements and at preventing the present enemy countries from gaining by the use of such materials an initial advantage

in the competition to recover markets which will follow the war.

Policy Recommended

After considering the subject in all its bearings, we have come to the conclusion that a policy of controlling exports during the transitory period immediately following the war can and should be applied to carefully selected materials, the imports of which into the enemy countries before the war were mainly derived from the British Empire and Allied countries, and the available supply of which will be wholly or mainly required by the British Empire and the Allies immediately after the war.

We do not consider that it would be either practicable or expedient to attempt to prevent the enemy countries from obtaining materials, as regards which the British Empire and the Allies will not be in a position to absorb the greater part of their production. To do so would involve the continuance after the war on an elaborate scale of the system of rationing neutral countries, and of exacting stringent guarantees of the ultimate destination of exports which has been partially applied during the war. Under the exceptional conditions prevailing in war it is possible by means of the sea power of Great Britain, and the consequent restriction of shipping, to induce some of the neutral states to accept such a limitation of their trading rights; but we are of opinion that an attempt to continue such a general arrangement after the war would raise questions of great international difficulty, and we have the gravest doubt whether it could, under any circumstances, be made practically effective when the ordinary channels of commerce among the other nations of the world are freely open.

It is also very desirable that interference with the export trade of this country after the war should be limited to cases in which it is clearly required by the public interest.

Suggested System of Export Licenses

We recommend that the Government should seek powers from Parliament to prohibit during the period of reconstruction imme-

diately following the war the export to all or any destinations, except under license, of such articles as may be deemed expedient.

The control thus obtained should be exercised so as to secure that the requirements of the British Empire and Allied countries are first satisfied, and the export of the surplus to neutral countries should be permitted.

An Allied Organization

In Part II of the report it is recommended that in order to secure common action among the Allies the Government should consider, in consultation with the Allies, the expediency of establishing after the war a joint organization on the lines of the Commission Internationale de Ravitaillement for dealing with the orders of the Allied Governments for reconstruction purposes and with such private orders as they may find it expedient to centralize. In exceptional cases it may be found necessary to adopt a policy of Government purchase of certain important raw materials, the supply of which cannot otherwise be safeguarded.

To carry into effect the recommendations of the Balfour Committee, Parliament passed "A Bill to continue, with modifications, for a limited period after the termination of the present war, certain powers in relation to imports and exports.

"The Lords of the Council on the recommendation of the Board of Trade may by order prohibit the importation or exportation of goods of any class, description, or origin, or produced or manufactured in whole or in part in any country or place specified in the order, either generally or from or to any country or place named in the order, subject in either case to such exceptions as may be specified in the order, and to any licenses the grant of which may be authorized in the order.

"This Act may be cited as The Imports and Exports (Temporary Control) Act, 1917.

"This Act shall continue in operation until the expiration of a period of three years after the termination of the war."

(b) Opposition to the Boycott

The advocates of the boycott did not find themselves in undisputed possession of the field. There were divers elements which were not in accord with their views, in spite of loosely flung accusations of pro-Germanism. Business men who had sold goods to Germany, and who in times of peace are greatly in need of the German market, historians who studied the effects of previous wars on the trade of the countries involved, economists whose views were grounded in the principles of science, and statesmen who were anxious to avoid future wars, were to be found in the opposition to the boycott movement which rode on the waves of popular passion.

(1) General

Historically, it is interesting to note that in the case of previous wars commerce between the belligerents increased both absolutely and relatively after the signing of the treaty of peace. This was notably the case after the Franco-Prussian War, the Spanish-American War, and the Russo-Japanese War.

"The imports of France from German territory in the year prior to the Franco-Prussian War were \$50,000,000. In 1872, the year following the war, they were practically \$70,000,000, and averaged \$66,000,000 per annum in the five years after the war. German imports from France in the same period showed a larger gain. They were \$60,000,000 the year before the war, and averaged annually \$83,000,000 in the five years following the war. The trade between France and Germany showed an increase of 40 per cent in the years immediately following the war.

"Another example is to be found in the trade relations between the United States and Spain. Our imports from Spain in 1897 were less than \$4,000,000. In the five years following the war they averaged \$6,000,000 per annum, an increase of 50 per cent. Our exports to that country, which were \$11,000,000 in the year before the war, averaged \$14,000,000 per annum in the five years following the war, or an increase of 25 per cent.

"The Russo-Japanese War showed the same facts. Japan's exports to Russia which were about \$1,500,000 in the year prior

to the war, averaged more than \$3,000,000 per annum in the five years after the war, showing an increase of over 100 per cent."²

There is nothing in the present circumstances to indicate that this phenomenon will not again be evident.

From the economic point of view, the principle of the boycott is fallacious. It is a discarded doctrine that in every trade one party gains to the extent that the other loses. The impoverishment of one nation will not lead to the enriching of another. The amazing development of industrial Germany benefited Great Britain and France. The current of trade set up by 70,000,000 people can not be shunted without diminishing the volume of trade in which they are not directly involved. In 1912 the combined imports and exports between the four powers, Great Britain, France, Russia, and Italy, on the one hand, and Germany, Austria-Hungary, Turkey, and Bulgaria on the other, that is, the trade between the two groups amounted to over \$2,000,000,000. In 1913 the imports of the four Central Powers totaled about \$3,500,000,000, and their exports about \$3,000,000,000. Their total trade constituted about 17 per cent of the world's trade for the year. Will it be possible to short-circuit their markets without wrecking the trade organization of the non-Teutonic powers?

The four Central Powers bought in the year 1913 from Great Britain \$400,000,000 worth of merchandise, from France \$150,000,000, and from the United States \$375,000,000. How many of the merchants in these three countries are anxious to continue the boycott against their best customers?

The boycott scheme fails to take into account the fact that the pre-war commerce of the world was based upon the free interplay of forces, the unimpeded exchange of commodities among all countries. Will it be possible to strike an international trade equilibrium within the larger group of the world's powers which will be as satisfactory as a world-wide understanding? Will not the world be the poorer for rejecting trade with 70,000,000 people with high standards of living and with great capacity for

²O. P. Austin, *International Commerce*, chapter in "American Problems of Reconstruction."

consumption? Will it be any richer for refusing to take advantage of the distinctive traits of the peoples of the Central European Powers, of the specialized technical skill, of traditions of particular crafts, and of other natural advantages which enable them to produce certain kinds of goods more efficiently than any other peoples?

If France wishes to trade with Russia, can she do it economically except across German territory? Would a water route via the North and Baltic Seas or a land route via Italy reduce transportation rates between France and Russia?

Politically, the effects of the boycott would be disastrous. Instead of ending war it would breed new wars. It would promote strife because of the innumerable points of friction inherent in any policy of commercial repression. Again, it would throw the neutrals into the arms of the Central Powers. If Germany could not take Russian wheat and Great Britain had to prefer Canadian wheat, what would be the effect on Russia? What would become of Argentine hides and wool if Great Britain refused to accept them on the same terms as the Australian products? The boycott proposal bristles with difficulties of all kinds. As both Arthur Greenwood and A. W. Pringle in Great Britain point out, it would be folly to attempt to add to the stupendous economic problems after the war by artificially fostering a dislocation of trade. Even if the policy should be politically successful, trade could be forced out of its accustomed channels only with heavy loss.²⁹

(2) *In Great Britain*

Chiefly as a result of the murder of so many of its members during the submarine warfare, the National Seamen's Union, of which J. Havelock Wilson is general president, was very active in spreading the propaganda favoring a boycott. However, sober British opinion is opposed to it. W. H. Dawson, in an article on German Trade After the War, in the *Quarterly Review*, pro-

²⁹ A. W. Pringle, p. 380, chapter in symposium of H. S. Furniss, "The Industrial Outlook."

duces a convincing array of figures of German pre-war trade, showing the absurdity of the boycott proposal. Merchants of Great Britain who sold to Germany chiefly have a personal motive and a very keen one for opposing the scheme. Sir Swire Smith sums up this opposition succinctly.⁸⁰

"It is a serious error to assume that a nation becomes richer through the poverty of another. The richer a nation becomes and the more its commerce is extended, the more it enriches communicating nations. Germany used more British goods than any other nation except India. And it is remarkable that British exports to Germany increased 105 per cent from 1890 to 1911, but only 70 per cent to the rest of the world. It is a noteworthy fact that Germany sold most to England when British industry was most active. The same is true for British sales in time of German industrial activity."

Definitely committed as is the Balfour Report to discrimination against the Central Powers in the after-war trade, yet there is a reservation which would permit a wide latitude of interpretation of the restrictive recommendations. It reads:

"But we recommend that the restrictive measures which it may be necessary to continue should be kept within the narrowest possible limits, and, wherever practicable, the trades concerned should be entrusted with the working of the control under government authority. The policy of the government should be directed toward the restoration of normal industrial conditions within the shortest possible time. We are strongly of the opinion that state control of, and restrictions upon, industry arising out of war conditions, will be found to be detrimental under normal conditions and should be removed as soon as possible after the conclusion of peace, due regard being had to the circumstances of each particular case."

The attitude of the British Labor Party in opposition to the boycott, indeed against any form of economic warfare, is pronounced, and was stated by Arthur Henderson, its leader:

"The danger of an economic struggle was clearly indicated in a decision reached at the recent Trade Union Congress by 2,339,000

⁸⁰ *The Real German Rivalry: Yesterday, To-day, and To-morrow*, Sir Swire Smith.

votes to 278,000, or a majority of more than eight to one. The resolution was as follows:

"That the economic conditions created by the war have in no way altered the fundamental truth that free trade among the nations is the broadest and surest foundation for world prosperity and international peace in the future, and that any departure from the principle of free trade would be detrimental to the prosperity of the nation as a whole.

"This overwhelming majority shows clearly that British industrial democracy, as represented by the Congress, will decline to subscribe to a policy prejudicial to the economic interests of our own working folk, and one that is calculated to prevent the definite and essential reconciliation of free democracies. Therefore, the proposal to cripple Germany financially and to render her impotent commercially by a ruthless trade war may be expected to receive the determined opposition of the British labor and socialist movement. * * *

"It is clear, therefore, that the Paris resolutions, so far as they are intended to form the basis of a policy of organized systematic commercial and economic boycotting which aims at the destruction of German commerce, must be strenuously opposed. They would provide a new standing menace to a healthy internationalism and to the future peace of the world. * * *

"If we have among us a section of politicians who regard the German people as rightful spoils, to be economically exploited and oppressed after the conclusion of hostilities, let them cease talking of a fight to a finish, for no mere military victory can ever be the final stage of the struggle; it would only mean a transfer of the venue, with a change of weapons from the military to the economic. * * *

"Labor is convinced that a world peace which is broadly based on the expressed will of free democracies cannot be assisted by a temporary or perpetual economic war. And a peace which does not properly recognize the natural economic rights of all peoples will be neither democratic nor lasting."^a

(3) *In France*

The French, who suffered most acutely from German outrages, nevertheless did not lose their heads in the world of passion out of which the proposed boycott policy was born. Two of the

^a *London National Weekly.*

leading economists of the country, Charles Gide and Yves Guyot, steadfastly opposed the boycott. But not only did professors of economics and financial writers adopt this attitude. The Association Nationale d'Expansion Economique as well as the Fédération des Industriels et Commerçants Français, two important business organizations, believe that the boycott is incompatible with their prosperity.

"Their members know too much of their subject to associate themselves with the puerile boycotting campaign which is carried on by a section of the press and a few ultra-nationalist associations. French merchants know that to refuse admission to all German goods would mean the closing of German markets to their own, and that it would not be easy to find a substitute for a customer who is worth a thousand million francs a year. Besides, the French manufacturer knows that there are in Germany raw materials and machinery which cannot be dispensed with and which will be most urgently required when his own factories start work again."

The congress of the coöperative societies of France took a similar stand in opposition to economic war after peace is declared. This body represents the French consumers' interests. Its resolutions add strength to the opinion of the economists and merchants. They commit the organization and recommend to the country "as regards Germany, Austria, and their allies, to abstain from systematic boycott which would be intended solely to ruin their trade, but on the other hand to allow them free access to the markets of the countries of the Entente on the condition that the two empires subscribe to the principle of international arbitration."²²

(4) *In United States*

Sober interests in the United States are likewise opposed to the boycott. President Wilson declared officially that the war should not end "in vindictive action of any kind." Further, the third of the fourteen points set forth in his address of Janu-

²² *Economic Journal*, London, Dec., 1916, article by Charles Gide.

ary 8, 1918, called for "the removal, so far as possible, of all economic barriers in the establishment of an equality of trade conditions among all the nations consenting to the peace, and associating themselves for its maintenance." Finally, the address at the Metropolitan Opera House on September 27, 1918, specified four conditions essential to an enduring peace, the last of which read:

"There can be no special, selfish economic combinations within the league and no employment of any form of economic boycott or exclusion except as the power of economic penalty by exclusion from the markets of the world may be vested in the League of Nations itself as a means of discipline and control."

The National Association of Manufacturers protested against the pro-boycott referendum of the Chamber of Commerce of the United States. The manufacturers declare that the proposal is "not only futile but vicious, and meets our unqualified disapproval." The International Seamen's Union of America likewise has disapproved of the boycott plan. Bankers and merchants throughout the country, economists, editors, and publicists have to a very large extent registered vigorous protests against any economic warfare after the war. A leading paper says editorially:

"The boycott promotes strife rather than peace, even when its purpose is laudable. There is ample proof that the boycott is a game that two can play at, and that it leads to reprisals and hostility without end. When this war is ended, it should be ended. It will have been fought in vain if it plants the seeds of future wars." "

(5) *In Germany*

The immediate effect of the Paris Economic Conference upon the German mind can hardly be exaggerated. A chorus of protests and abuse issued from the daily and periodical press. The economic magazines were filled with arguments and counter

" *New York Times*, Feb. 18, 1918. The *Journal of Commerce* continuously wrote against the commercial boycott.

threats. As an impotent gesture to counter the boycott proposal Friedrich Naumann heralded his Mittel-Europa scheme as the salvation of Germany. However, the period of hysteria was followed by one of sober second thought in which the economic fallacy of the boycott was exposed and its political difficulties pointed out. Even Friedrich Naumann revamped his ideas. He said at a meeting of the Colonial Company in Berlin:

"It has been claimed that by creating a Middle Europe we can dispense with a colonial policy, or that a Middle Europe will interfere with our oversea activities. The idea is absolutely erroneous. Now above all times must we concentrate our energy upon oversea activities for Mittel-Europa has imposed upon us economic responsibilities which can only be borne and solved through a colonial policy."^a

Economists who adhere to the principles of exchange and distribution come to the same conclusions in all the countries. Professor Franz Eulenberg, of Aix-la-Chapelle, points out that "not the downfall and adversity of another power, but its progress is necessary to any nation's well being. The war itself has completely refuted those mercantilist ideas. It is an extremely primitive and naïve notion that a nation can benefit economically by destroying another nation's commerce. The last generation which lived in a period of increasing wealth, has proved the converse to be true. Not from the elimination and repression of Germany, but in reality from its expansion, did the other nations derive the greatest benefit and will have to expect it in the future."^a

Albert Ballin, one of the builders of pre-war Germany, a far-seeing man of affairs, a persistent advocate of anti-militarist policies, and therefore discredited in the eyes of the military ring, also protested against the boycott. Some 200 members of the Reichstag met at Hamburg June 15 and 16, 1918, to obtain the views of the leading representatives of commerce, industry, and shipping concerning the policies of the transition period. Ballin opposed government control of business, and government coercion of the individual. He said:

^a *Norddeutsche Allgemeine Zeitung*, Jan. 19, 1918.

^a *Berliner Tageblatt*, April 2, 1918.

"We cannot demand liberty from our enemies when we apply compulsion ourselves. We cannot fight for the freedom of the seas if at the same time we seal the doors of Central Europe. Peace must restore free play to economic laws. The peace negotiators must insist that the raw materials obtained overseas shall be distributed equitably in proportion to the share which the various countries received in 1913. International trade must be securely established on the basis of equity."²²

(c) New Tariff Policies

Not all the trade policies planned for the after-war period are the product of passion or are directed against specific enemy countries. As shown above, the war has dislocated the trade of the world. It has had the effect of a protective tariff on most countries and has fostered domestic industry of some kind in all countries. Aside, then, from the relations between the two groups of powers, each individual country is readjusting its trade policy to conform to the altered state of commerce resulting from the war.

The policies contemplated are of three kinds. Questions of tariff preference between members of the Allied group, as well as between mother country and colonies, occupy a prominent position. Again the idea of economic independence, of self-sufficiency, has exaggerated the importance of the so-called essential, key, or pivotal industries, which it is asserted should be protected, not for economic but for political reasons. Finally, a change in the fundamental tariff policy of the various countries has been brought up for discussion.

(1) Preferences

Preference in commerce between members of the Allied group is recommended by the Paris Economic Conference. Under "Transitory Measures," paragraph III reads:

"The Allies declare themselves agreed to conserve for the Allied countries before all others their natural resources during the whole period of commercial, industrial, agricultural, and mari-

²² *Hamburger Fremdenblatt*, June 15 and 16, 1918.

time reconstruction, and for this purpose they undertake to establish special arrangements to facilitate their interchange of these resources."

Under "Permanent Measures," paragraph II reads:

"In order to permit interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations, both by the establishment of direct and rapid land and sea transport services at low rates and by the extension and improvement of postal, telegraphic, and other communications."

The sentiment in favor of preference in trading between the present Allies is part of a larger tariff scheme advocated by many trade organizations. The Council of the London Chamber of Commerce on May 25, 1916, adopted the recommendations of the Special Committee on Trade During and After the War, which provided for a five-ply tariff, whereby favored treatment or discrimination would be applied to the following groups: (1) British possessions; (2) present allies; (3) friendly neutrals; (4) other neutrals; (5) enemy countries.

Whether preference between countries will be realized is a question. However, the less difficult project of colonial preference within the British Empire raises in some respects a more important issue. Colonial preference is not a new subject in the Empire. It was proposed in 1902 by the Colonial Conference held in London.

In a preliminary report of the Balfour Committee made in February, 1917, Imperial preference was recommended.

"We therefore recommend that the government should now declare their adherence to the principle that preference should be accorded to the products and manufactures of the British Overseas Dominions in respect of any customs duties now or hereafter to be imposed upon imports into the United Kingdom.

"We have arrived at the conclusions indicated chiefly on the ground that, although to some of us any measures which may act in restraint of trade are in the abstract distasteful, we think it necessary that for the sake of the unity of the Empire a serious attempt should now be made to meet the declared wishes of the Dominions and Colonies for the development of their economic relations with the United Kingdom, and that any abstract opin-

ions we may hold should not, under the circumstances in which we are placed and with the experience gained during the war, stand in the way of any measures which are seen to be important, having regard to the general interests of the Empire.

"We do not overlook the practical difficulties involved, but we desire to emphasize the fact that for the purpose of recovering trade lost during the war, of securing new markets, and of consolidating the resources of the British Empire, the development throughout the Empire of a system of mutual tariff preferences is a subject which cannot, in our opinion, any longer be neglected."

Colonial preference has been sponsored in other quarters as well. A subcommittee of the Advisory Committee to the Board of Trade on Commercial Intelligence included in its tariff recommendations the opinion expressed by many of its witnesses "that there exists a strong desire to respond to the feeling in our Dominions in favor of an Imperial preference in trade, and that there is also a strong desire to arrange preferential trading with those who are our allies in the present war." The final Balfour Report likewise recommends that "a serious attempt should be made to meet the declared wishes of the Dominions and Colonies and of India for the readjustment and development of their economic relations with the United Kingdom. An effort should also be made to develop trade between the British Empire and our Allies."

These recommendations are repeated in the final Balfour Report in the Statement of Conclusions on Fiscal Policy. "Preferential treatment should be accorded to the British Overseas Dominions and Possessions in respect of any customs duties now or hereafter to be imposed in the United Kingdom, and consideration should be given to other forms of Imperial preference."

To carry out the declaration of the Imperial War Cabinet and of the Imperial War Conference as well as the recommendations of the Balfour Committee, Austen Chamberlain, the British Chancellor, embodied a scheme of preferences in his presentation of the budget (April 30, 1919). He said: "Although the beginning may be small, the measure of the proposal is not the amount of British imperial trade which secures preference at this

moment, but the opportunities for the development of that trade which we are opening up. There never was a time when it was more important to the Empire as a whole that imperial development should take place." The four considerations which determine the nature of the scheme for preference are:

1. The preference should be substantial in amount.
2. The rates as far as possible should be few and simple.
3. Where there is an existing excise duty corresponding to the customs duty the excise must be proportionately altered so as not to give a preference at the expense of the home producer.
4. The interests of the Allies of Great Britain should be considered so as to avoid increasing duties on their products for the purpose of giving preference to British goods.

The extent of the preference varies. In Class I, goods on which no excise duties exist, as clocks and watches, motor cars, and musical instruments, the preferential reduction on colonial manufactures is one-third. In Class II, the preferential reduction of existing duties on colonial products is one-sixth. It applies to the following commodities of which specified percentages came from Empire sources before the war: Tea, 90 per cent; cocoa, 50 per cent; coffee, 20 per cent; sugar, 7 per cent; tobacco, 2 per cent; gasoline, 18 per cent. In Class III, beer, wine and spirits, the preferences vary. A reduction from existing duties applies to wines, so as not to injure the trade of Britain's allies, France and Portugal. However, in the case of spirits, colonial preference is established not by a reduction of duties but by a surcharge on foreign imports.

The estimated loss of revenue to the British Exchequer through the proposed rates of preference is about £3,000,000, borne chiefly by tea imports. In other words, imperial preference has been effected by concessions to the liberals and free traders.

"As regards our commercial relations with our present Allies and neutrals, the denunciation of existing commercial treaties is

unnecessary and inexpedient, but the present opportunity should be taken to endeavor to promote our trade with our Allies, and consideration should be given to the possibility of utilizing for purposes of negotiation with them and present neutrals any duties which may be imposed in accordance with the principles laid down above."

Notwithstanding these recommendations of the Balfour Committee the Chancellor of the Exchequer Bonar Law stated in Parliament that Great Britain intended to denounce all treaties providing for most favored nation treatment, so as to permit the granting of preferences to the British Dominions.

(2) *Economic Independence*

Realizing their dangerous dependence upon Germany for many commodities, which constitute a small percentage of the total imports in value, Great Britain and France, and indeed all countries, have adopted the policy of fostering self-sufficiency by the promotion of key or pivotal industries which are essential to the economic well being of the country. The subject is covered in both the Paris Resolutions and the Balfour Report.

To avoid becoming economically dependent upon the present enemy powers, the Allies decide, as a transitory measure, "to join in devising means to secure the restoration to these (devastated) countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock and mercantile fleet, or to assist them to reëquip themselves in these respects."

Permanent measures also are contemplated.

"The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.

"These measures should be directed to assuring the independence of the Allies, not only so far as concerns their sources of supply, but also as regards their financial, commercial, and maritime organization. Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole, to a sufficient extent to enable them to

maintain and develop their economic position and independence in relation to enemy countries."

The question of economic independence occupies a very prominent place in the Balfour Report. In fact, England invented a terminology on the subject, including such expressions as "key, pivotal, or essential industries." Sections of the report dealing with the subject follow (Chs. IV and V):

"The experience of the war has shown that the United Kingdom and the British Empire as a whole are dependent upon foreign countries for a large number of raw materials which are not produced at all within the Empire, or are produced only on a scale altogether incommensurate with our requirements. We do not think that any attempt to make the Empire self-supporting in respect of them all would be either practicable or economically sound, but that a selective policy would be necessary, which shall have regard to relative importance, whether industrial or military, and to the sources of supply and the likelihood of their disturbance in time of war.

"From the consideration of these industries (synthetic dyes, spelter, tungsten, magnetos, optical and chemical glass, hosiery needles, thorium nitrate, barytes, limit and screw gauges, and drugs), certain principles emerge, which call for notice. We now proceed to state these principles and to make the general recommendations which, in our opinion, follow from them.

"In the first place a particular commodity or branch of production which is of great national importance at a given time, may not continue to be so, and on the other hand new essential industries may emerge in the future.

"Secondly, the causes which have rendered British trade dependent upon the present enemy countries for the supply of particular commodities are by no means uniform, and the measures required to promote the various branches of industry involved may vary with each individual commodity. The problem will also be affected as new economic and political conditions arise and changes occur in the international situation.

"In these circumstances, we recommend the establishment of a permanent board (which might be called the Special Industries Board), charged with the duty of watching the course of industrial development and of framing from time to time, when necessary, either on its own initiative or on the application of interested departments or persons, detailed schemes for the promotion

and assistance of industries concerned with the production of commodities of the special character indicated in this report."

Under the section on "Fiscal Policy," the report, however, does recommend action with respect to specific industries:

"Some government action should be taken to promote and safeguard the development in the United Kingdom of industries of a special or 'pivotal' character (i.e., industries on which other and larger branches of industrial production of substantial national importance are dependent), or which, while essential for munition purposes, are not of sufficient commercial importance to insure their development without such State assistance.

"Some government assistance should be given to industries, other than those mentioned above, which are important for the maintenance of the industrial position of the United Kingdom, where such assistance is proved to be necessary because of the inability of the industries to maintain or develop themselves by reason of undue foreign competition, inadequate supply of raw materials, or any other causes."

The first report of the Balfour Committee, submitted in February, 1917, said: "In the light of experience gained during the war, we consider that special steps must be taken to stimulate the production of foodstuffs, raw materials, and manufactured articles within the Empire wherever the expansion of production is possible and economically desirable for the safety and welfare of the Empire as a whole."

The same recommendation was made by the subcommittee of the Advisory Committee to the Board of Trade on Commercial Intelligence. "We are of the opinion that where the national supply of certain manufactured articles, which are of vital importance to the national safety, or are essential to other industries, has fallen into the hands of manufacturers and traders outside the country, British manufacturers ready to undertake the manufacture of such articles in this country should be afforded sufficient tariff protection to enable them to maintain such position after the war."

The Imperial War Conference, at a meeting in London in 1917, expressed itself in favor of colonial preference and adopted

a resolution that the time had arrived for making the Empire independent of other countries in respect to food supplies, raw materials, and essential industries.⁸⁷

(3) *Tariff Changes*

The feeling prevailing in much of Europe is that the war has so altered commercial relations as to make tariff changes necessary. A new customs policy must be developed to fit new trade conditions.

In Great Britain official and unofficial indorsements of a tariff on imports have been published. The first report of the Balfour Committee said:

"It will be necessary to take into consideration the desirability of establishing a wider range of customs duties which would be remitted or reduced on the products of manufactures of the Empire and which would form the basis of commercial treaties with allied and neutral powers."

The Committee on Commercial Intelligence of the Board of Trade expressed the belief that "it will be necessary to impose some widely spread import duties, and we are therefore prepared to recommend that a larger proportion of the revenue should be raised by reasonable import duties. We are of the opinion that such import duties would go a long way toward satisfying the requests for special protective treatment for industries which we have had under consideration."

The Balfour Report is very guarded in its recommendations on the tariff. The hegemony of Great Britain in shipping, in commerce, particularly in the reexport trade, in international finance, is due largely to the absence of restrictions on the movement of merchandise. Besides, England is not any longer in need of development as, say, Argentina, or even the United States. Protectionism per se is not a panacea for all countries. A high tariff developed the American tinplate industry, but a low tariff will maintain the position of its British competitor.

⁸⁷ *Commerce Reports*, Nov. 2, 1917.

The report states the underlying facts and then gives its conclusions.

"A claim for protection cannot, in our opinion, normally be regarded as valid, unless the industry which makes it can show that in spite of the adoption of the most efficient technical methods and business organization it cannot maintain itself against foreign competition or that it is hindered from adopting these methods by such competition.

"There are some large branches of production, such as the main branches of the cotton trade, in which there is no demand for any measure of protection.

"The primary object of State policy should be the development of industries of importance to the national security and well being, and any State action directed towards the indiscriminate maintenance of a number of industries which do not contribute appreciably or at all towards the increase of the national wealth would, we think, be economically unsound.

"Any State action likely to raise prices, even temporarily, for any commodities of national importance, should be confined within the closest possible limits.

"It is of paramount importance that our export trade should not be hampered by any policy which might unduly increase the cost of production in this country, as compared with the cost in other countries; and a more limited tariff could be used equally well, though not so extensively, for granting Imperial Preference and also for the purpose of negotiation with foreign countries. We direct attention to the expediency of considering measures of Imperial Preference other than the imposition of differential customs duties.

"The producers of this country are entitled to require from the Government that they should be protected in their home market against 'dumping' as previously defined, and against the introduction of 'sweated' goods, by which term we understand goods produced by labor which is not paid at Trade Union rates of wages, where such rates exist in the country of origin of the goods, or the current rates of that country where there are no Trade Union rates.

"Those industries which we have already described as 'key' or 'pivotal' should be maintained in this country at all hazards and at any expense.

"As regards other industries, protection by means of customs duties or government assistance in other forms should be afforded only to carefully selected branches of industry, which must be

maintained either for reasons of national safety, or on the general ground that it is undesirable that any industry of real importance to our economic strength and well being should be allowed to be weakened by foreign competition, or brought to any serious extent under alien domination or control.

"In view of the danger that the admission of the principle of protection, even to a limited extent, may give rise to a widespread demand for similar assistance from other industries, and consequently to an amount of political pressure which it may be very difficult to resist, we further recommend that a strong and competent board, with an independent status, should be established to examine into all applications from industries for state assistance, to advise His Majesty's Government upon such applications, and where a case is made out, to frame proposals as to the precise nature and extent of the assistance to be given. Before recommending tariff protection the board should consider forms of state assistance other than, or concurrent with, protective duties, and it should have constantly in mind the safeguarding of the interests of consumers and of labor, and should make recommendations as to the conditions to be imposed for these purposes."

Discussion of tariff charges is confined to no one country. France also has undertaken to revise completely its tariff system. The committees on tariff of both houses favored the abrogation of existing commercial agreements so as to give France the opportunity to build anew from the ground up such a tariff system as will best suit the altered political and economical conditions. As an indication of the liberal influences that will be a factor in the making of the new tariff, we give herewith the resolution of the Congress of Coöperative Societies held in 1916:

"Commercial treaties between the nations composing the Entente should be as wide as possible. Everything that makes for interchange should be encouraged, as transportation, immigration, naturalization, postal arrangements, and unification of factory laws. Attempts should be made to establish more thoroughgoing union between neighboring countries. In those colonies which have not yet been given self government, the principle of the open door should be established. * * * To facilitate the creation of any new industry capable of opening new channels for the nation's business, should be the aim of the tariff policy. It

should not, however, aim to make the country independent of others, but rather to accept the principle of a necessary division of labor and a desirable international coöperation among all countries."³⁸

Italy has denounced all commercial treaties which provide for tariff reductions. The Italian Tariff Commission recommended the discarding of the present system of the general and conventional tariff, and the adoption of the maximum and minimum tariff instead. The difference between the two systems is as follows: In the case of the general and conventional tariff the general tariff is fixed by the legislature and the conventional tariff, consisting of a lower set of duties, is fixed by the executive branch of the government in bargaining with other nations. The lower rates are embodied in treaties, during the term of which the country surrenders the right to change its tariff. The German tariff is an example of this type. The maximum and minimum tariff system has a maximum tariff, the reductions from which to the minimum schedule are granted by the legislative branch of the government. Every article therefore has two rates. The lower or minimum rate is used in bargaining for concessions from other countries.³⁹

The proposal for a customs union of Central Europe has no significance, owing to the disintegration of the Teutonic Alliance. It was projected chiefly as a counter measure to the boycott movement and to the resolutions of the Paris Conference. Among other things it provided for the possible addition of the neutral nations of Europe to membership.

(d) *The Opposition to Tariff Restrictions*

In view of the commercial development of Great Britain under the system of free trade, it is not surprising to find that objection

³⁸ "The Commercial Policy of France After the War," Charles Gide, *British Economic Journal*, Dec., 1916.

³⁹ "International Tariff Relations," W. S. Culbertson, *Quarterly Journal of Economics*, Aug., 1918.

to tariff restrictions has been raised by the free-trade element. There is opposition to preferences in trading among the Allies, opposition to colonial preference, and opposition to the levy of any general duties on imports. The only part of the tariff program with which the free-trade element is in sympathy is that devised to make the Empire more self-sustaining. As the Manchester Guardian puts it, "The proposals are accepted not as a measure of commercial wisdom, but as a measure of Imperial safety in preparation for the next war. To surround the Empire with a ring fence is not thought good business now any more than before. But it is thought good strategy."

The objections to protection in Great Britain are many. It is considered poor policy to initiate these changes during a time of business readjustment when the process of a return to normal conditions should not be hampered by any new disturbing element. Particularly is it undesirable to increase the cost of living at a time when wages are falling, as they probably will be during the period of transition. From the industrial point of view, it is questionable policy to permit any increase in the cost of raw materials and therefore the cost of production at a time when international competition is expected to be unusually severe. There is little doubt that a tariff on imports will raise the selling price of exports, not only to the extent of the duty on the raw materials of manufacture, but also as a result of the increase in wages necessary to compensate for the increased cost of living under a protective tariff. Again, it must not be overlooked that England's transshipment business, amounting to about \$2,500,000,000 a year, was based on her free trade policy. Protective duties, be they ever so slight, will increase the cost of transshipped goods as a result of a more complex machinery for handling. Duties will restrict the freedom of movement of goods consigned for reëxport. A tariff system will involve the necessity of the establishment of a system of free ports, or of cumbersome drawbacks.

Any scheme of preference, to favor the Allies or the colonies, must necessarily restrict the range of commodities that make their way to the London consignment market. Similarly, a tariff

will narrow the choice of the British manufacturer. Under free trade, he selects his merchandise from a wide range of goods offered, and what he does not take may be resold in the merchandising trade that England does with the rest of the world. But the fundamental economic objection is that if a country does not buy it cannot sell. It is no accident that free-trade England led the world in international commerce. As a result of the development of new industries in various countries of the world, their imports of related commodities will be restricted. The shortening of trade routes following the submarine campaign has eliminated much of the transshipment business, so that the world's exchange of goods may temporarily be less after this war than before. At a time of decline in the volume of trade, a further restriction due to a protective policy may be more harmful than under normal conditions.

Then there is the political objection to a tariff. Many Britons hold that no country owning or controlling such a large portion of the earth's surface can afford to follow any but a liberal trade policy. To do otherwise would cause the consolidation of the countries discriminated against or bearing some grievance based on real or imaginary wrongs. It would lead to the formation of an anti-British bloc. Indeed, as the Dominions, Australia and Canada, New Zealand and South Africa, are practically separate nations, the adoption of the scheme of colonial preference would be equivalent to the formation of an all-British economic alliance against the non-British world. The objections of liberal statesmen and economists to the proposal of a British protective tariff system are based on sound economics and politics.

The difficulties to be overcome in establishing a British tariff system are apparent not only to the British but also and more keenly to the Germans.⁴⁰

"Every all-British Customs Union contains an element of danger for the coalition leaders in that it must clash with the interests, not only of neutrals, but also of England's allies. It is true

⁴⁰ *Welthandel*, Aug. 23, 1918, containing comment on an article by Max Schippel in the *Sozialistische Monatshefte*.

that neutrals are promised preferential terms as regards Germany, but from the standpoint of customs dues they will always remain at a disadvantage with England, on account of her vast oversea dominions, and with her colonies on account of the enormous possibilities of the English market. What this means, for example, for the Argentine, with her exports of wool, meat, and grain, or for Holland, with her exports of colonial produce and important agricultural and industrial home products, is patent to the eye. A similar conclusion holds good for countries which themselves are taking part in the anti-German coalition, in which England is the predominant partner. It applies even to the United States, with regard to which a warm controversy has been taking place in England in the summer of 1918. Not only in the Canadian, but in the Australian and South African markets, the United States is an industrial competitor of England, just as it is a rival of Canada and Australia in England and in many parts of her Empire in the sale of products of agriculture, forestry, and fisheries. Is the United States, under such conditions, likely to view with indifference the preference given to English industries and the produce of British colonies involving discrimination against American goods, even if some slight differential treatment is afforded American industries by placing higher duties on German goods for the English and colonial market? That the same may be said for the countries on the Continent of Europe, for France, Italy, and especially Russia, is obvious; no doubtful agreement would ever compensate these countries for the actual losses incurred."

(c) *Anti-alien Laws*

The extensive ramifications of German economic interests penetrated into the internal economic life of every country, in which German subjects took up their residence. Before the war, the extent of German economic penetration was little known, or if known regarded with tolerance or indifference. Indeed, so rapidly was Germany's influence over the economic life of other states growing, that in another generation Germany might have conquered the world by the arts of peace. However, the war, exposing as it did the baneful influence of German capital invested abroad, has brought about the liquidation of German interests. Furthermore, the nations have resolved that no state of affairs such as was tolerated before the war shall again be possible.

(1) Paris Resolutions and the Balfour Report

Indeed, the Paris Resolutions state specifically "The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising, in their territories, certain industries or professions which concern national defense or economic independence."⁴¹

The Balfour Report is moderate in its recommendations:

"As regards alien interests in the sources of supply within the Empire, we think some government control, which may take various forms according to the circumstances of each case, will be necessary in future in respect of a limited number of commodities of vital military importance. Apart from this limited class of cases, we think that it would be unwise to aim at the exclusion of foreign (other than present enemy) capital from sharing in the development of the material resources of the Empire.

"We recommend that legislative powers should be taken to secure: (a) Complete disclosure of the extent of foreign holdings in any particular case; (b) that mineral and other properties are not secured by foreign concerns in order to prevent the development of these properties to check competition in the supply."⁴²

"We consider that for a period after the war it will be necessary to impose special restrictions upon the subjects of present enemy countries, and this can best be done by stringent permit and police regulations. Subject to the last-mentioned safeguards, we do not think that it will be necessary or practicable, except possibly for a short period in special cases, to attempt to prevent present enemy subjects from establishing agencies or holding interests in commercial or industrial undertakings generally in this country. In particular, we think it would be impracticable and inexpedient to impose any restrictions or discriminations as regards the use of London credit or of London insurance or re-insurance facilities.

"We state that in our opinion it would not be desirable to impose any special restrictions upon the participation of aliens generally in commercial and industrial occupations in this country. In the limited number of cases in which some restrictions or safeguards may be necessary, adequate security can, as a rule, be insured by requiring disclosure of the facts. * * *

⁴¹ Clause V, Transitory Measures.

⁴² Ch. IV, On the Supply of Materials.

"The registration of title to property should be made compulsory over the whole of the United Kingdom, and such registration should involve a declaration of the nationality of the owner or transferee in order to enable the Government to decide whether in any particular case national security requires the expropriation of foreign interests.

"We recommend that the Board of Trade should have the power to make an investigation in the case of any particular company in which, on grounds of national safety, control might be undesirable, and in which there is *prima facie* ground for suspecting its existence to an undue extent.

"We think that it would be unwise to enter on a policy of checking the establishment or continuance of the agencies or branches of foreign banks and insurance companies in this country."

The gist of the Balfour Report with respect to the control of alien activity is that aliens, the nationals of enemy countries in the war, are to be under police regulation but that the basic international character of commerce shall not be affected.

(2) The British Non-ferrous Metal Industry Act

This act approved on February 6, 1918, like the Imports and Exports Temporary Control Bill, is the outcome of the Balfour Report. Its purpose is to restrict the activity of enemy aliens in the metal industry. Its provisions are as follows:

"It shall not be lawful for any company, firm, or individual, after the expiration of six months from the passing of this act, or such longer period as the Board of Trade may allow, to carry on the business of winning, extracting, smelting, dressing, refining, or dealing by way of wholesale trade in metal or metallic ore to which this act applies, unless licensed to do so by the Board of Trade."

The act does not cover transactions carried on outside the United Kingdom, nor such as are incidental to the main business concerned. There are six conditions, defining degrees of enemy connection which will justify the refusal of a license.

"1. That any director of the company, or any partner of the firm, or the individual, or any manager, or other principal officer

employed by the company, firm, or individual, is a person who is or has been a subject of a state which is now at war with Great Britain.

"2. That in case of a company, any capital of the company is or was any time after the 12th day of November, 1917, held by or on behalf of an enemy, including any stock or shares of a company vested in the custodian by virtue of any order made under the Trading with the Enemy Acts, 1914-1916.

"3. That the company, firm, or individual, is or was at any time after the 12th day of November, 1917, party to any agreement, arrangement, or understanding, which enables or enabled an enemy to influence the policy or conduct of the business.

"4. That the company, firm, or individual, is or was at any time after the 12th day of November, 1917, interested, directly or indirectly, to the extent of one-fifth or more of the capital profits or voting power, in any undertaking, whether or not in the United Kingdom, engaged in business of a kind to which this act applies, in which enemies are also interested, directly or indirectly, to the extent of one-fifth or more of the capital profits or voting power.

"5. That the company, firm or individual is by any means whatever subject, directly or indirectly, in the conduct of their or his business to enemy influence or association."

The sixth provision covers bearer shares.

(3) *Other Anti-alien Measures*

France is enforcing a law to prevent aliens from disguising their identity under fictitious names, whether individual or company names. A public register was established to disclose the existence of direct or indirect foreign influences in business enterprises.

It is interesting to contrast the liberal attitude of the *Fédération des Industriels et Commerçants Français* toward competition of goods made in Germany with its attitude toward enemy aliens in France. The Federation is opposed to industrial invasion and would prohibit all aliens or alien companies from engaging in important industries or occupations without special authorization. This restriction applies particularly to industries that affect the economic independence of France. To insure that

any self-styled French company shall not be under foreign control it is required that all shares be registered in the names of the holders.⁴⁸

The anti-alien measures discussed in France propose the establishment of a personal register, in which will be listed the names and addresses of all the inhabitants of the community, their birthplaces, and the names of their parents, and a trade register somewhat similar to the personal register. In addition, it has been suggested that all storekeepers shall hang in their shops a sign stating their name, birthplace, and nationality. Trade registers are kept in Germany, Italy, and the neutral countries of Europe.

Italy has gone further and enacted a law (June 18, 1917) requiring all merchants and manufacturers residing in Italy to declare their nationality. Stockholders and managers of corporations are subject to the same law. Naturalized foreigners must state their original nationality, and naturalized Germans must produce evidence that they have given up their original German nationality.

The neutral countries of Europe have followed the lead of England and France and are restricting by various means the ownership and control of key industries by aliens. Even in South America anti-enemy alien laws have been put into effect. The Brazilian Government withdrew the authorization for operation in Brazil of three large German banks, The Deutsche Sudamerikanische Bank, the Deutsche Überseeische Bank, and the Brasilianische Bank für Deutschland.

(ii) *Economic Internationalism*

A consideration of the nationalistic commercial policies discussed above might lead to the belief that the world is entering upon an era in which isolation of nations will be carried to an extreme. However, indications of such a development are deceptive. The psychological fruit of the war is an intensified

⁴⁸ *British Economic Journal*, Dec., 1916, "The Commercial Policy of France After the War."

group consciousness. The state of war required decisive group action, which was possible only as a result of extensive like-mindedness and passionate self-sacrifice on the part of the individuals constituting the group. The war may be over, but its emotional legacy is still undissipated. The excessive nationalism that inspired the after-war commercial programs is merely the back-wash of war. It affects only incidentally the current of social development which was making for an increased international consciousness. The following sections treat briefly of the tendencies toward economic internationalism.

(a) Some General Principles

During the modern era human society has become increasingly internationalized. The growth of commercial intercourse, international finance, the migration of peoples, and communication in general have multiplied the relations between the various nations and between the citizens of these nations. Indeed, international functioning had increased in as many directions by man's conquest of matter. The railroad, the steamship, the airplane, telegraph, and cable, telephone and wireless, have immensely increased the mobility of international society. Internationalism had been growing along two lines, namely, the recognition and protection of international interests, and the unification of the laws and of the administration of the various countries.⁴⁴

"The outstanding fact of to-day is that we are approaching a period of national and international organization quite unlike anything which has existed in the past, and that at a time when the movement for effective popular control, both over the political

"Material in this section is based on Lawrence S. Woolf's, "The Framework of a Lasting Peace," and his "International Government" and Horace M. Kallen's, "The Structure of Lasting Peace" and "The League of Nations." Walter Weyl's "American World Policies," Ordway Tead's "The People's Part in Peace," Edward F. Krehbiel's "Nationalism, War and Society," are suggestive. Charles H. Cooley's "Social Process," and Arthur J. Todd's "Theories of Social Progress" afford a perspective for the consideration of economic internationalism.

and the economic life of the nation, is rapidly growing. All this was inevitable owing to the development of industrial invention on the one side, and a popular education on the other. It required the war, however, to awaken people sufficiently out of old habits of mind and old ways of doing things to see the new world which lay ahead and to adapt themselves to it. It is now no longer a question of restoring pre-war conditions. It is rather one of seeing with clear eyes the immense possibilities of well being for the human race which can come, after the war is won, from a resolute combination of democratic institutions with the conduct of public affairs in the spirit of the golden rule."⁴⁰

Prior to the great war there were an increasing number of international conferences and treaties covering industry, trade, finance, and migration of peoples, to mention only a few of the subjects of negotiation. These isolated agreements were too often called forth by crises in the relations of states. Mankind had learned the value of international adjustment in emergencies. But the war resulted from a maladjustment of economic forces. There was no established and recognized method of relieving the social strain. Suppressed antagonism between nations created cumulative and unvented grievances which culminated in a cataclysm. One gain from the war, however, is that it has emphasized the value of continuous, conscious international coöperation. Without the various interallied commissions on food, munitions, shipping, and finance, the war might not have ended as it did or at least as soon as it did. On the other hand, the blockade of Germany carried the doctrine of economic nationalism to the extreme and made possible the victory of the Allies and proved the futility of economic isolation as a national policy.

What society needs above all is the conscious development of an international organism, elastic, adaptable, and capable of growth, a social body embracing all nations. As in any biological organism, the parts of the social organism are differentiated and therefore must be mutually interdependent. Society now lacks a central directing mind, which can so order accommodations

⁴⁰ "Some Problems in Democracy and Reconstruction," *Round Table*, London, Sept., 1917.

between its constituent organs, the nations, as to avoid convulsive readjustment when international relations become unstable.

Treaties of peace reflect a set of relations which prevail at a given moment. When the relations change, the treaties no longer bind.^{45a} The European powers have from time to time changed their alignment. England and France were once enemies; so also were Austria and Germany. Our concept of society should be that of a growing, living organism, continuously adjusting itself to changing conditions, and constantly molding those very conditions so as to permit its further existence. There must be some social mind to do for society what the brain does for the individual.

"Learn by experience or suffer is the rule of life. Is it not applicable to nations as well as to individuals? And if so, have not nations come to the great crisis in which for them the rule 'Learn or perish' will prove inexorable? All must learn the lesson of this war."⁴⁶

This is now not the theory of a class-room sociologist alone. Heads of states now appreciate what has long been taught by the sociologists, that social progress has been largely unconscious, based on suffering and calamity, but that progress in the future may be directed and quickened by learning the lessons of the past.

The principles of a just and sound internationalism were summarized in President Wilson's address at the Metropolitan Opera House on September 28, 1918:

"First, the impartial justice meted out must involve no discrimination between those to whom we wish to be just and those to whom we do not wish to be just. It must be a justice that plays no favorites, and knows no standard but the equal rights of the several peoples concerned.

"Second, no special or separate interest of any single nation or any group of nations can be made the basis of any part of the

^{45a} See Woolf for examples.

⁴⁶ Viscount Grey, "The League of Nations."

settlement which is not consistent with the common interest of all.

"Third, there can be no leagues or alliances or special covenants and understandings within the general and common family of the league of nations.

"Fourth, and more specifically, there can be no special, selfish, economic combinations within the league and no employment of any form of economic boycott or exclusion except as the power of economic penalty by exclusion from the markets of the world may be vested in the league of nations itself as a means of discipline and control.

"Fifth, all international agreements and treaties of every kind must be made known in their entirety to the rest of the world."

(b) *Policies*

The league of nations born at Paris is the embodiment of the principles of internationalism which had taken shape in various institutions before the war. This section will treat briefly of these institutions, of some of the international commissions created during the war, of the particular proposals in commerce and finance for international coöperation, and of the League of Nations and its proposed machinery.

(1) *Pre-war International Unions*

a. *General*

Before the war there had grown up a group of specialized public international unions, designed to afford a means of continuous adjustment in the relations between states. They aimed to remedy the defect of the treaty system which provided for a single adjustment at a given time of a changing set of national relations. Paul A. Reinsch, in his *Public International Unions*, states that "there are in existence 45 public international unions composed of States. Of these, 30 are provided with administrative bureaus and commissions." One type aims to unify

national administration along certain lines. The other does more. It attempts to create international government by binding the signatory powers to do or to refrain from doing certain acts and by creating permanent administrative organs of international government. Thirty-three important international bodies have been classified as follows:

"I. Permanent Deliberative or Legislative Organs Working in Conjunction with Administrative Organs.

1. The Telegraphic Union.
2. The Radio-telegraphic Union.
3. The Universal Postal Union.
4. The Metric Union.
5. The International Institute of Agriculture.
6. La Commission Pénitentiaire Internationale.
7. The Sanitary Councils and International Office of Public Hygiene.
8. The International Geodetic Association.
9. The International Seismological Union.
10. The Pan-American Union.
11. The Central American Union.

"II. Periodic Conferences in Conjunction with Permanent International Bureaus or Offices.

1. Railway Freight Transportation.
2. Industrial Property.
3. Literary and Artistic Property.
4. Pan-American Sanitary Union.
5. Slave Trade and Liquor Traffic in Africa.

"III. Conferences and Conventions with Object of Unifying National Laws or Administrations.

1. Conférences Internationales pour l'Unité Technique des Chemins de Fer.
2. Automobile Conference.
3. Latin Monetary Union.
4. Scandinavian Monetary Union.
5. Central American Monetary Union.
6. Conference on Nomenclature of Causes of Death.
7. Legal Protection of Workers.

8. Submarine Cables.
9. Commercial Statistics.
10. White Slave Traffic.

"IV. Special International Organs of a Permanent Character.

1. Sugar Commission.
2. Opium Commission.
3. Plague Surveillance in China.
4. International Committee of the Map of the World.
5. Hague Tribunal and Bureau.
6. Central American Court of Justice.
7. International Bureaus for the Publication of Customs Tariffs."

b. The International High Commission

A form of international economic coöperation which is of particular interest to Americans, is the work of the International High Commission, created at the Pan-American Financial Conference at Washington, in 1915. Official representatives of the American republics met and formed the International High Commission, with a separate section for each nation, at the head of which was to be the member of the cabinet in charge of finances. Its work was summarized by John Bassett Moore, the vice-chairman of the Commission:

"The program of the International High Commission, as laid down by the Pan-American Financial Conference at Washington, covered a wide but well considered range, embracing: (1) The establishment of a gold standard of value; (2) bills of exchange, commercial paper, and bills of lading; (3) the uniform (a) classification of merchandise, (b) customs regulations, (c) consular certificates and invoices, (d) port charges; (4) uniform regulations for commercial travelers; (5) the international protection of trademarks, patents, and copyrights; (6) the establishment of a uniform low rate of postage and the improvement of money-order and parcels-post facilities between the American countries; and (7) the extension of the process of arbitration for the adjustment of commercial disputes.

"In addition to these subjects, the International High Commission, at its meeting in Buenos Aires, dealt with the extension of banking facilities and of credits, and the stabilization of exchange; the unification of laws for the protection of merchant creditors; international agreements for uniform labor legislation; the unification of national regulations and policies regarding mineral oils; improved transportation facilities between the American republics; and telegraph facilities and rates, including the use of wireless telegraphy for commercial purposes." ⁴⁷

c. International Corporations and Trusts ⁴⁸

The extent of the international community of interest of consumers becomes evident when one considers that before the war there were international corporations that controlled a number of basic raw materials: the metals, aluminum, potassium, zinc, nickel, lead, and platinum; chemicals, borax, nitrates and potash, petroleum and refined products; agricultural machinery; and heating appliances. In several instances a commodity is handled by a world-wide trust, as in the case of platinum and borax.

Since 1883 an International Rail Syndicate, which fixed prices and pro-rated orders by international agreement, has been in operation. It originally included manufacturers in Great Britain, Germany, Belgium, and France. American steel makers joined the syndicate in 1905. The Continental Commercial Union is the international glass combination, which unifies sales policies and eliminates competition. In somewhat similar fashion, the Imperial Tobacco Company and the American Tobacco Company partitioned the world with respect to tobacco sales. J. and P. Coats entered into non-competitive sales agreements with other leading thread manufacturers of the world.

d. International Associations in Commerce and Industry

The identity of interests both of producers and of consumers all over the world has resulted in the formation of international

⁴⁷ In an address at Washington, Dec. 30, 1918.

⁴⁸ L. S. Woolf, quoted above.

federations of national bodies, or of international groups of individuals. In the labor field, for instance, there is the International Federation of Trade Unions, founded in 1901. It is composed of national federations in the various countries. On the other hand, there are groups of workers in various countries who have directly united in the common interest. Such are the International Metal Workers' Federation, the International Federation of Transport Workers, the International Union of Woodworkers, and the International Association to Combat Unemployment. The functions of the second kinds of associations are, to establish trade-union standards all over the world, to regulate immigration of members of the international unions, to bring wages to a common level (successful strikes were conducted in England to raise labor standards to the German level⁴⁹), and to support strikers out of a common international fund. The Swedish General Strike was supported to the extent of 2,000,000 kroners, raised outside of Sweden. In fields other than labor, associations of both types are common. The Baltic and White Sea Conference of Shipowners was organized to regulate competition and to fix minimum freight traffic. It included shipowners of eleven countries and affected two-thirds of their total registered tonnage sailing these seas. The International Federation of Cotton Manufacturers and Spinners, the International Federation of Flax and Tow Spinners, and the International Congress of Chambers of Commerce consist of unions of national bodies.

The functions or objects of these international bodies cover a wide range of activities. The unification of the monetary systems of limited groups of countries was the aim of the Latin American, the Central American, and the Scandinavian Monetary Unions. The Metric Union, now including twenty-six countries, was formed to promote adherence to the international standard meter. In 1853 there was initiated, and in 1890 established, the International Union for the Publication of Customs Tariffs, in which forty countries participated. As a result of its activity, the commodities involved in import or export trade to any extent were in 1910 divided into five main classes. A further subdi-

⁴⁹ L. S. Woolf, "International Government," p. 340.

vision into 185 classes was made, and has been awaiting the end of the war to be put into effect. The International Congress of Chambers of Commerce recommended the establishment of an international Bureau of Statistics to bring about the adoption of a uniform scheme of compilation and valuation of imports and exports. It also recommended the adoption of a uniform consular invoice and the enactment of a uniform law of checks.

There are other cases in which nations have agreed to limit their sovereignty to secure the advantages of joint action. The Sugar Convention of 1902 created a Permanent Sugar Commission to which fourteen states agreed to surrender the right of independent action. They agreed to abolish sugar bounties, to tax imported duty-fed sugars, and to limit the import duty on all sugars. Russia, and some other countries, went even further and agreed to limit the amount of sugar they would export during any one year. The International Institute of Agriculture established to collect and publish information concerning the agriculture of the world has the unique distinction of having continued its work after the outbreak of war and of having retained the official representatives of enemy countries in conference even though the usual political relations were broken.⁵⁰

(2) International Economic Coöperation During War Time

The question of international economic coöperation has been treated above (see page 137). We shall give here a summary of the work of the Inter-Allied Maritime Transport Council and of the larger body of which this is a part, The Commission Internationale de Ravitaillement.

*a. Inter-Allied Maritime Transport Council*⁵¹

The decision to create such a council was reached at the Paris Conference of December, 1917, and permanent organization was

⁵⁰ L. S. Woolf, "International Government"; H. W. Macrosty, "The Trust Movement in British Industry," *La Vie Internationale*.

⁵¹ Second Annual Report, U. S. Shipping Board, Dec. 1, 1918.

effected March 11, 1918. The purpose of the council was to supervise the general conduct of Allied transport in order to obtain the most effective use of tonnage for the prosecution of the war, while leaving each nation responsible for the management of the tonnage under its control. With this object the council secured the necessary exchange of information and coördinated the policy and action of the Governments of France, Italy, the United States, and Great Britain, in adjusting their programs of imports to the carrying capacity of the available Allied tonnage (having regard to the naval and military requirements), and in making the most advantageous allocation and disposition of such tonnage in accordance with the urgency of war needs.

The council had at its service a permanent organization consisting of four sections—French, Italian, American, and British. The council obtained through its permanent staff the programs of the import requirements for each of the main classes of essential imports, and full statements regarding the tonnage available to the respective Governments. It examined the import programs in relation to the carrying power of the available tonnage to ascertain the extent of any deficit and consider the means whereby such a deficit may be met, whether by a reduction in the import programs, by the acquisition, if practicable, of further tonnage for importing work, or by the more economical and co-operative use of the tonnage already available. The members of the council reported to their Governments with a view to putting into effect in their respective countries the decisions of the council.

b. *The Commission Internationale de Ravitaillement*

This commission which was discussed above (see page 85) acted for the Allies with respect to the formulation of requirements, the signing or approval of contracts for supplies, with due regard to questions of competition, supply, tonnage, and finance, the fixing of priority of manufacture and shipment, the inspection of materials delivered, and the authorization of payments on account of the particular Allied government ordering it.

The commission comprised, first, representatives of the British Government departments; second, representatives of the Allied Governments; and third, a British executive staff.

The requirements of the Allied governments dealt with by the commission were of two kinds: (1) Direct government requirements for munitions of war, military and naval equipment, materials and machinery for their manufacture by government arsenals, and other materials, such as coal and foodstuffs, insofar as they were purchased, controlled, and distributed by an Allied government to meet vital national needs; (2) indirect requirements, that is, machinery and materials required by firms in Allied countries for the execution of government contracts. Where the excess of demand over available supplies made the avoidance of competition particularly desirable, and where materials were sufficiently standardized to make such a course practicable, joint purchases were negotiated both in Allied and neutral countries, either through the British Government departments, for example, through the Minister of Munitions in the case of metals, and through the War Office in the case of wool, military equipment, etc., or through the special inter-Allied bodies which existed for that purpose, such as the Wheat Executive.⁵²

c. The Supreme Economic Council

For the purpose of handling economic questions during the period of the armistice, the Supreme War Council, in discussing terms of renewal of the armistice, voted to establish a Supreme Economic Council. The official communication reads:

"The following resolution, proposed by President Wilson, was approved:

"First. Under present conditions, many questions not primarily of military character, which are arising daily and which are bound to become of increasing importance as time passes, should be dealt with on behalf of the United States and the Allies by civilian representatives of these governments experienced in such questions—finance, food, blockade control, shipping and raw materials.

⁵² *British Board of Trade Journal*, May 16, 1918.

"Second. To accomplish this there shall be constituted at Paris a Supreme Economic Council to deal with such matters for the period of the armistice. The Council shall absorb or replace all such other existing inter-Allied bodies and their powers, as it may determine from time to time. The Economic Council shall consist of not more than five representatives of each interested government.

"Third. There shall be added to the present international permanent armistice commission, two civilian representatives of each government, who shall consult with the Allied high command, but who may report direct to the Supreme Economic Council,"¹

d. *International Labor Legislation*

The International Association for Labor Legislation was formed in 1905, with the object of raising labor standards to a uniform level, particularly with regard to the elimination of occupational disease and the establishing of social insurance. The peace negotiations have provided an opportunity for incorporating the association's program in the final terms of the settlement. As an indication of what labor expects, it is interesting to consider the program of the International Trade Union Conference at Berne, October, 1917. The Inter-Allied Labor Conference, which met in London, accepted the same platform. The provisions are given herewith.²

"1. Freedom of Travel. The enactment of prohibition of emigration shall not be permissible. The enactment of general prohibitions of immigration shall not be permissible [except under specifically limited conditions].

"2. Right of Coalition. Complete and unqualified right of all workers under all conditions to organize in every country is demanded.

"3. Social Insurance. States which are party to the peace treaty are asked to obligate themselves to institute social insurance at the earliest possible date.

"4. Hours of Labor. A maximum of 10 hours of work a day

¹ *Associated Press*, Paris, Feb. 8, 1919.

² *Monthly Review*, U. S. Bureau Labor Statistics, March, 1918, pp. 172-9. Cp. Labor clauses in peace treaty,

and of 8 hours in certain industries is demanded with defined restrictions on Sunday and night work.

"5. Hygiene. The several states are asked to work more rapidly, along lines already agreed upon, to eliminate industrial poisons.

"6. Home Work. The several states are asked to allow home work only under carefully prescribed limitations.

"7. Protection of Child and Woman Labor. The adoption of uniform restrictions upon the working hours and conditions of employment of children and women is demanded.

"8. Enforcement of Labor Legislation. Provisions are urged which shall assure effective enforcement of existing legislation.

"9. The International Association for Labor Legislation shall explicitly be recognized in the peace treaty as the medium for the promotion and enforcement of international protective labor legislation."

(3) Proposed International Commissions After the War

Short of a league of nations, there have been various proposals, official and unofficial, looking to greater international coöperation in some specific direction. The Balfour Report recommended (Ch. III, c.) "that in order to secure common action among the Allies after the war, the British Government should consider, in consultation with the Allied Governments, the expediency of establishing a joint organization upon lines similar to those of the Commission Internationale de Ravitaillement. This proposed international organization would deal with the orders of the Allied Governments for reconstruction purposes and with such private orders as they may find it expedient to centralize."

Of similar tenor is the suggestion of Arthur Greenwood.⁵⁵ "I would suggest that parallel with the Peace Congress there should be an international economic commission, charged with formulating an economic policy for facilitating the restoration of international economic relations in the reconstruction of the world's

⁵⁵ "The Reorganization of Industry, Ruskin College Conference, 1916," paper on How Readjustment May Be Facilitated After the War.

economic system. Such a commission should be as widely representative as the Peace Congress itself. It would be a great gain if this body were given a permanent existence."

A proposal for international coöperation on tariff administration was set forth by W. S. Culbertson, of the United States Tariff Commission,⁵⁸ who says that the Peace Conference "should provide for the establishment of a permanent international tariff commission. In the past when bargaining between nations failed to remove discriminations, trade war was the last resort and it usually failed. No organization existed which could act as an arbiter and which was interested in the international aspect of the discrimination. But we have come to see that not only the nations directly involved, but every other nation in the world, is interested in the amicable adjustment of tariff difficulties. An international tariff commission, if it were merely a clearing house of information, would justify its existence. It might in addition be given power to investigate discriminations, or it might be assigned the duty of carrying out a plan agreed upon at an international conference. Certainly the world needs an organization which will take up differences when ordinary bargaining methods fail, and which will propose a solution before the differences lead to hatred and hostility."

Using as a precedent the International Gold Clearance Fund set up for the countries of North and South America, upon the recommendation of Messrs. Archibald Kains and Paul M. Warburg, the late David Lubin proposed an International Reserve Board, which "could, first of all, act as an international clearing house; it could regulate the ebb and flow of gold; it could supervise the factors that go to determine the rates of interest and exchange rates; it could perform along international lines essential functions now performed on national lines by the Federal Reserve Board, and it could render such other services toward the end in view as might be assigned to it.

"More than that, the exigencies of the new conditions may warrant the issuance of international gold notes, said notes to be

⁵⁸ *Quarterly Journal of Economics*, 1918, International Tariff Relations.

issued under the auspices of the proposed International Reserve Board, and to be guaranteed by the joint security of the Allied countries. They should be legal tender at their face value for all gold payments in the Allied countries."

Recommendations for international coöperation are not confined to the Allied powers alone. The *Münchener Neueste Nachrichten* recommends⁸⁷ that "a commercial league of nations be established at the end of the war parallel to the political league of nations. The Brussels Sugar Convention of 1902 shows that an international understanding can be made effectual to avoid the questionable morality, under which various countries have been guilty of favoring their exporters at the expense of domestic consumer. If we substitute for sugar all commodities, we would have a scheme for the rational exchange of goods among the various countries."

(4) *Limited Leagues vs. a League of All Nations*

During the war, when the defeat of Germany was in doubt, there were a variety of schemes for a limited league of nations. Both the Earl of Curzon and Lord Robert Cecil advocated that the league of nations fighting Germany be continued as a permanent organization and that Germany should not be admitted until she was compelled to abandon her dream of world power. Such a scheme of course contemplated two leagues of hostile powers. There have also been suggestions of an Anglo-American Entente. But even after Germany was completely defeated, Clemenceau still continued to plead for the old-fashioned alliance of nations, which would preserve the balance of power. The special treaty with France partakes of this character. The value of a limited league is protective, not creative; negative, not positive. It substitutes a new balance of power for the old. Its doctrine is that of force and not of justice. On the same day that Mr. Clemenceau advocated the new balance of power, President Wilson enunciated uncompromisingly his conception of a league of nations.

⁸⁷ July 5, 1918.

"It is very interesting to me to observe how from every quarter, from every sort of mind, from every concert of counsel, there comes the suggestion that there must now be, not a balance of power, not one powerful group of nations set up against another, but a single overwhelming, powerful group of nations who shall be the trustees of the peace of the world.

"Our thought was always that the key to the peace was the guarantee of the peace, not the items of it. . . . The items would be worthless unless there stood back of them a permanent concert of power for their maintenance.

"When this war began, the thought of a League of Nations was indulgently considered as the interesting thought of closeted students. . . . Now we find the practical leading minds of the world determined to get it."^a

"If the future had nothing for us but a new attempt to keep the world at a right poise by a balance of power the United States would take no interest, because she will join no combination of power which is not a combination of all of us. She is not interested merely in the peace of Europe, but in the peace of the world."^b

Viscount Grey in his statement on the league of nations is equally insistent on a league which will embrace all nations, great or small:

"The condition essential to the foundation of the League of Nations is that the Governments and peoples of the states willing to found it understand clearly that it will impose some limitations upon the national action of each, and may entail some inconvenient obligation. Smaller and weaker nations will have rights that must be respected and upheld by the league. Stronger nations must forego the right to make their interests prevail against the weaker by force, and all states must forego the right in any dispute to resort to force before other methods of settlement by conference, conciliation, or if need be arbitration, have been tried. This is the limitation. The obligation is that if any nation will not observe this limitation upon its national actions, if it breaks the agreement which is the basis of the league, rejects all peaceful methods of settlement, and resorts to force against another nation, they must one and all use their combined force against it.

"The economic pressure that such a league could use would in

^a Guildhall Address, Dec. 28, 1918.

^b Manchester Address, Dec. 30, 1918.

itself be very powerful, and the action of some of the smaller states composing the league could not perhaps go beyond the economic pressure, but those states that have the power must be ready to use all the force, economic, military, or naval, they possess. It must be clearly understood and accepted that deflection from or violation of the agreement by one or more states does not absolve all or any of the others from the obligation to enforce the agreement."⁶¹

One of the most vigorous and damaging opponents of the limited league of nations is Mr. Henderson, the British Labor Party's leader, who depicts a world divided into two hostile camps:

"If the suggested Federation of Nations is to have any prospect of real and permanent success, and if the present struggle is to be looked back upon as the war which ended all war, everything must be done to prevent the division of Europe into two separate and hostile economic camps after the war. It may safely be said that the latter eventuality would be fatal to all our hopes of a permanent peace, and a great betrayal of a righteous and noble cause. Instead of securing the abolition of war, it would perpetuate international suspicion, jealousy, and greed, the evil products of economic antagonisms which contributed so largely to the general causes of the present European conflict, and would, within a few short years, lead inevitably to a bitter and devastating repetition of all the losses, sorrow, suffering, and sacrifice mankind is now enduring."⁶²

(5) *The Economic Organization of International Government* ⁶³

When the league of nations is established, it is hardly likely that a single body will be able to administer all its affairs. The interests of people within the state are not primarily local or geographical, but rather nation-wide and occupational. So also, internationally, the interests between two citizens in different countries are often closer than those between two citizens of the

⁶¹ "The League of Nations," by Viscount Grey of Falloden.

⁶² "Labor's After-War Economic Policy," Rt. Hon. Arthur Henderson, M. P.

⁶³ L. S. Woolf, "International Government"; H. M. Kallen, "The League of Nations"; Ordway Tead, "The People's Part in Peace."

same country. To correspond to the international community of interest of producers or consumers, international government will have to be administered not by a single body, whose business it would be merely to keep the peace, but by a series of international commissions with specialized functions in the fields of labor, commerce, finance, mails, patents, etc. There might, for instance, be an international commission on raw materials, which would concern itself with their production and equitable distribution. A similar international commission on food might be created. Another body to deal with international labor problems, questions of immigration, labor standards, and social insurance, should be set up. Transportation on land and sea and the joint utilization of ports, harbors, and rivers, would have to receive attention. It would be necessary to keep open, maintain, and police avenues of transportation by land, water, and perhaps air. Questions of traffic rules and routes, the regulation of rates, the hearing of disputes, and the international control of canals or straits, would be subjects for consideration by the international commission on transportation. Other commissions might handle questions of international trade, investments, and finance.

As in the case of international bodies already in existence the projected commissions may be organized in one of two ways. Either each national section of the international commission may represent the interests of the particular state in labor, transportation, production, and consumption of goods, or else the particular interests in all the states may send their delegates directly to the international commission without choosing any intermediary representative for the state.

(c) *The Spiritual Lessons of the War*

It might seem out of place in an economic discussion to consider other than economic phases of the victory. But truly, victory has its pitfalls. A vindictive peace is a boomerang. Germany suffered from her triumph over Austria and over France. As a result of her military success, and of the unjust terms of the peace she forced on France, she perpetuated the causes of war

and lost the real fruits of the victory. The danger of a successful war is the growth of arrogance and intolerance. Japan to-day, as a result of her victories over China and Russia, is exhibiting the same national psychology that led to the downfall of Germany. To the victorious Allies, one of the important lessons of past wars should be the value of a wise moderation, through the exercise of which alone a healing peace can be effected.

Defeat has its compensations. The victim of wanton aggression has the sympathy and finally the support of the world. The world wept and bled with injured France. The policy of selfishness reacts upon the perpetrator. The world may conceivably weep and bleed for a wronged Germany which has been chastened by defeat. Truly the meek will inherit the earth. As Horace says, "Conquered Greece took the fierce victor captive."

The war and the victory illustrate as do few great events in recent history the conflict between the ideals of power and the ideals of service. Germany's influence for good upon the world, which before the war was undeniably great, was the result not of her might but of the service of her scientists, her social workers, and her artists. If there is one synonym for the internationalism that has come in the past century to bind the world, that synonym is service. And because national problems are no longer parochial, because all problems are world problems, the ideals of the service of nations to each other will have to be consciously emphasized. To-day, as in ancient times, and indeed in all times, a nation's influence will be felt "not by might, not by power, but by the spirit."

CHAPTER III

GREAT BRITAIN ¹

This chapter will be divided into four sections, devoted to the facts concerning Great Britain's trade, policies in trade promotion, policies in trade regulation, and a summary of the Balfour Report on Commercial and Industrial Policy after the War.

A. The Facts Concerning British Trade

The outstanding effect of the war on Great Britain's trade is that the adverse balance of trade greatly increased during the war. That is, Great Britain's imports increasingly exceeded her exports throughout the war. This was due not only to an increase in the volume of imports, but in a large degree also to the rise in the prices of commodities. The elements in the invisible balance of trade, such as interest and dividends, shipping fees, brokerage and insurance charges, and bankers' and brokers' commissions, all these sources of income were insufficient to enable Great Britain to offset the excess of imports over exports. Specific trade currents and trade in specific commodities were profoundly affected. Trade with nearby countries, particularly the Allies, greatly increased, whereas trade with distant countries either remained stationary or declined. Exports to Europe increased and exports to non-European countries decreased. Imports from European countries decreased and imports from non-European countries increased. In the main, Great Britain bought from financially strong countries and sold to financially weak ones.

¹ The commerce of specific countries has been treated above insofar as the changes in trade and the policies proposed illustrated the general principles that were outlined at the time. The following chapters present material primarily for the purpose of illustrating developments in the specific countries.

(i) *The Balance of Trade*

The imports of Great Britain rose from £768,000,000 in 1913, to £1,320,800 in 1918, while the exports remained practically constant. The resulting excess of imports over exports rose from £243,000,000 in 1913, to £822,400,000 in 1918. The following table shows the changes by years (figures in thousand pounds sterling; 000 omitted):

Calendar Year	Imports	Exports	Excess of Imports
1913.....	768,700 ^a	525,200	243,500
1914.....	696,600	430,700	265,900
1915.....	851,000	384,900	466,100
1916.....	948,500	506,300	442,200
1917.....	1,066,700	525,300	541,400
1918.....	1,320,700	498,300	822,400

^a At normal rates £1 = \$4.8665.

During the war years, 1914-1918, the excess of imports over exports aggregated about £2,500,000,000, or approximately \$12,100,000,000.

The rapid growth of British imports, the practically stationary character of exports, and the consequent sharp increase in the adverse trade balance, are shown in the following table of monthly returns for 1916 and 1918:

FOREIGN TRADE OF GREAT BRITAIN BY MONTHS, 1916 AND 1918.
[Figures in million pounds; 000,000 omitted.]

Month	Imports		Exports		Excess of Imports	
	1916	1918	1916	1918	1916	1918
January.....	74.9	99.1	36.8	41.7	38.1	57.4
February.....	67.3	99.0	36.3	39.1	31.0	59.9
March.....	86.1	107.2	37.6	36.0	48.5	71.2
April.....	75.7	119.8	36.8	40.0	38.9	79.8
May.....	83.8	125.8	47.0	45.0	36.8	80.8
June.....	86.9	101.6	47.3	45.0	39.6	56.6
July.....	76.7	109.2	46.3	43.6	30.4	65.6
August.....	76.1	110.2	47.7	43.5	28.4	66.7
September.....	77.4	98.0	43.5	40.1	33.9	57.9
October.....	81.2	117.7	44.7	42.8	36.5	74.9
November.....	88.9	116.9	42.5	43.2	46.4	73.7
December.....	75.4	116.2	39.9	38.3	35.5	77.9

The manner in which Great Britain settled for her imports belongs properly to a discussion of foreign exchange. Suffice it to say that before the war she received annually, as an offset to her adverse commodity trade balance, interest and dividends amounting to £200,000,000, shipping fees amounting to £100,000,000, and brokerage and insurance charges amounting to £30,000,000.²

As a result of the war, her holdings of foreign securities were liquidated to considerable extent, and her income from interest and dividends correspondingly reduced. Despite the loss in tonnage as a result of submarine activity, her income from shipping probably increased. Bankers' and brokers' commissions likewise decreased and insurance fees probably rose.

To offset the trade balance during the war years, Great Britain first sold her holdings of foreign securities, shipped gold (about \$1,000,000,000), raised loans in the open markets of the United States and Japan, received government advances from the United States, and entered into special arrangements with neutrals, like Argentina, to finance British imports from them for a short term of years.

(ii) *The Effect of Increased Prices*

The index number of commodity prices rose over 100 per cent in Great Britain. Sauerbeck's number, the Economist's index, and the Board of Trade figures, all point to the same result. The London Statist³ analyzes the effect of rising prices on values by giving figures of imports and exports both at the pre-war prices and at the actual higher prices. The analysis shows that the total imports in 1916, in volume, were 14.7 per cent smaller than in 1913, but that prices were 44.7 per cent higher. Similarly the exports were, in volume, 27.7 per cent less in 1916 than in 1913, but were sold at prices 33.3 per cent higher than in 1913, so that the value of 1916 exports was only 3.6 per cent lower than in 1913.

The following comparison for the years 1913 and 1916 for a

² "The Business of Finance," Hartley Withers, E. P. Dutton & Co., 1918.

³ *The Americas*, Feb., 1917.

few commodities will illustrate the dual influences of price and volume on the value of imports:

Imports	Decrease in volume	Increase in price	Increase in value
	<i>Per cent.</i>	<i>Per cent.</i>	
Grain and flour.....	13	77	\$238,000,000
Meats.....	13	47	187,000,000
Sugar.....	25	over 100	70,000,000
Raw materials.....	12	35	250,000,000
Manufactured articles.....	32	27	21,000,000 (decrease)

The following table shows the volume of trade for the years 1913 and 1916 at the prices prevailing during each year, and what it would have been in 1916 at 1913 prices:

BRITISH TRADE AT ACTUAL AND ADJUSTED PRICES.

[Figures in million dollars; 000,000 omitted.]

	At actual prevailing prices		At 1913 prices
	1913	1916	1916
Imports.....	3,845	4,745	3,275
Re-exports.....	547	485	415
Exports.....	2,625	2,530	1,860
Total trade.....	7,017	7,760	5,550
Excess of imports.....	1,220	2,215	1,415

Apparently, the physical volume of trade in 1916 was less than in 1913. It was only the rise in prices that made the money value of 1916 trade exceed that of 1913.

(iii) Changes in Trade Currents

The general question of changes in trade currents is treated above in the section on the Effects of the War, where the effect on England's trade is shown (see p. 70). A few additional features will be pointed out here. Imports from Continental Europe decreased greatly, particularly from Britain's allies. However, there was more than a counterbalancing increase of imports from countries then neutral and from the inactive Allies, as well as from the British Dominions. On the other hand, exports to Britain's European allies more than doubled, whereas exports to the British Dominions, to the inactive Allies, and to neutrals, decreased.

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ANALYSIS OF THE TRADE OF GREAT BRITAIN.

[Figures in million pounds; 000,000 omitted.]

Imports from	1913	1917
European Allies:		
France.....	49.5	24.5
Russia.....	40.2	17.9
Italy.....	8.1	10.4
Belgium.....	23.4	3.5
Portugal.....	3.9	4.8
Greece.....	2.2	1.0
Total.....	127.3	62.1
Neutral Europe:		
Sweden.....	14.2	14.8
Norway.....	7.4	18.4
Denmark.....	24.0	18.3
Netherlands.....	27.9	37.2
Switzerland.....	11.0	11.3
Spain.....	16.0	22.5
Total.....	100.5	122.5
Non-European Allies:		
United States.....	143.8	380.4
Cuba.....	3.7	17.8
Brazil.....	10.0	10.0
Japan.....	4.4	15.3
China.....	4.7	8.5
Total.....	166.6	432.0
British Possessions.....	212.9	359.9
Exports to	1913	1917
European Allies:		
France.....	32.4	118.0
Russia.....	18.1	46.7
Italy.....	14.6	27.7
Belgium.....	13.5	17.6
Portugal.....	6.1	4.7
Greece.....	2.5	0.2
Total.....	87.2	214.9
Non-European Allies:		
United States.....	30.5	33.7
Cuba.....	2.2	2.0
Brazil.....	12.5	7.2
Japan.....	14.8	5.6
China.....	14.8	10.6
Total.....	74.8	59.1
British Possessions.....	205.1	172.6

In other words, Great Britain purchased from and became indebted to financially sound powers but sold to and became the creditor of the financially weak ones.

Great Britain's transshipment trade was severely curtailed as a result of the submarine campaign. Until the end of 1916 the decline in the value of exports of foreign and colonial products was slight, hardly 10 per cent below 1913, but in 1917, the value of transshipped goods declined to about 70 per cent of the pre-war figure and in 1918 to about 28 per cent. The submarine campaign broke up, temporarily at least, the business of Great Britain as the international jobber of merchandise. The official figures follow:

THE EXPORT OF COLONIAL AND FOREIGN MERCHANDISE.

Year	Value	Year	Value
1913.....	£109,575,000	1916.....	£97,566,000
1914.....	95,474,000	1917.....	69,677,000
1915.....	99,062,000	1918.....	30,956,000

However, the British Colonies were benefited to the extent that their direct trade with neighboring countries grew very considerably.

(iv) *Changes in the Character of Exports and Imports*

As a result of the war, the character of the foreign commerce of Great Britain changed. Some of the changes are purely temporary and resulted from the conduct of the war. A comparison of the year 1913 with 1918 shows that the imports of food and drink almost doubled, raw materials increased 60 per cent, and articles wholly manufactured almost 50 per cent. On the other hand, exports show the opposite tendency. Foods declined 60 per cent, raw materials about 15 per cent, manufactured articles about 2 per cent. Figures showing the foreign trade of Great Britain for the calendar years 1913, 1916, and 1918 are given herewith.

FOREIGN TRADE BY COMMODITIES.

[Figures in thousand pounds; 000 omitted.]

Commodity Groups	Imports, C. I. F.			Exports, F. O. B.		
	1913	1916	1918	1915	1916	1918
Food, drink and tobacco.....	200,202	419,167	572,660	32,588	29,495	12,067
Raw materials.....	281,822	336,792	458,850	60,005	64,345	60,838
Manufactured articles.....	193,602	189,194	280,164	411,368	393,398	493,721
Miscellaneous.....	3,108	3,354	7,656	11,384	19,042	21,847
Total.....	768,735	948,506	1,319,339	525,245	506,280	498,473

(Figures in per cents.)

Food, drink, etc.....	37.8	44.1	43.4	6.2	5.8	2.4
Raw materials.....	36.6	35.6	34.8	13.3	12.7	12.2
Manufactured articles.....	25.2	19.9	21.2	78.3	77.8	81.0
Miscellaneous.....	.4	.4	.6	2.2	3.7	4.4
	100.0	100.0	100.0	100.0	100.0	100.0

Or in terms of total imports, foods increased, but raw materials and particularly manufactures decreased in importance. In per cent of total exports, manufactures increased, but raw materials and particularly food decreased in importance.

Some of the changes, however, are of a more permanent nature. This is particularly true of the imports of commodities formerly obtained from the Teutonic powers. As a result of the war, the dye industry was built up, so that Great Britain in future need no longer import 80 per cent of her aniline dyes. Tungsten and spelter, glass and chemicals, machinery and tools, and electrical goods, will no longer figure so largely as items of import as they did before the war. Indeed, Great Britain will probably export these commodities as a result of the development of the domestic industry in these various fields.

(v) *The Control of Exports*

The trade figures given above reflect a control of imports and exports.

"As soon as the war had been declared in August, 1914, it became necessary in the national interests to control the export trade of the country in order (1) to prevent goods reaching the enemy which were of importance in connection with the war, and

(2) to conserve within the realm such supplies of goods as were essential for some requirements either for the prosecution of the war, or for domestic purposes of the nation. Simultaneously with the declaration of war, proclamations were issued prohibiting the export of various descriptions of goods. Applications for licenses to export any of the goods appearing in these proclamations to persons other than Allied Governments were dealt with by an inter-departmental committee called the Committee on Trade with the Enemy.

"In order that due regard might be paid to all considerations involved in the export of goods, subject to any prohibition, a committee, the main licensing committee, was formed of representatives of the principal government departments affected. The organizations involved are:

"(1) About 20 committees whose duty it is to consider applications for licenses.

"(2) The War Trade Intelligence Department collects information as to the character and course of business of consignees in neutral countries.

"(3) The War Trade Statistical Department collects information with regard to the quantities of goods imported into northern neutral countries contiguous to the enemy, with a view to insuring that while due regard is paid to their necessities, no margin is available for export to enemy countries.

"An application may be a general license to make a series of shipments of similar goods to the same consignee or to various consignees over a limited period, or it may be for a license to export a specific quantity of goods to one consignee. The committee have to take into consideration many factors, the question of home supplies of the goods; the danger of goods reaching enemy destination; the quantity which under various rationing agreements may be allowed to be exported to particular destinations; whether in particular cases the application is duly supported by a British minister or consul, in the country of destination. * * * The exigencies of tonnage in connection with the war and the effect of submarine operations have led to drastic changes and the department applies itself to the problem of how export, transshipment, or re-export can be allowed with due regard to the conservation of tonnage. It therefore keeps in touch with the Ministry of Shipping and the Department of Import Restrictions.

"About 16,000 to 18,000 applications were dealt with weekly."*

* *Board of Trade Journal*, Sept., 1918.

B. Policies Proposed

The war has jolted England out of her position of economic ease and security. A study of pre-war conditions, a comparison of the more rapid progress of Germany, and a knowledge of the disorganizing effects of the war on trade has set England astir. The Board of Trade, which corresponds to the Department of Commerce in the United States, appointed official committees to investigate trade conditions and to recommend courses of action. Unofficial bodies also studied questions of trade and published their findings. Policies advocated may be classified into two groups, those to promote trade, and those to regulate trade.

(i) Trade Promotion

Several kinds of trade-promotion policies are advocated. The reports of committees of the various industries, appointed by the Board of Trade, indicate the growing popularity of coöperation among manufacturers in the same industry to promote exports. Several private companies were formed by manufacturers in different industries to develop foreign trade in general or in a particular territory. The government reorganized the Board of Trade and created a new Department of Commercial Intelligence for the purpose of extending the facilities of the Government to merchants seeking increased business abroad.

(a) Coöperation of Industries to Promote Exports

"The President of the Board of Trade appointed a departmental committee to consider the probable position of various branches of British industry after the war, especially in relation to international competition, and to report what measures, if any, are necessary in order to safeguard that position. The aim is to obtain for manufacturers and others engaged in trade a statement of (1) conditions immediately after the war, especially for overseas markets, (2) the action to be taken by the Government to recover ground lost during the war, and to strengthen this position."^a

^a*British Board of Trade Journal*, Jan. 3, 1918.

The reports cover the organization of industry, the supply of raw materials, facilities for financing trade, technical training and apprenticeship, patent designs and trademarks, commercial intelligence, and coöperation to promote exports. In this section we shall consider only the last.

(1) *Iron and Steel Industry*

The committee recommends "that the iron and steel manufacturers should associate themselves for the purposes of export trade and should form common selling organizations by the extension and consolidation of associations which already exist. The various products are well defined and their export distribution should be controlled by associations of manufacturers concerned in their production. The committee recommend an organization divided into groups, each dealing with specific products.

"The committee are of the opinion that these associations should be voluntary rather than imposed compulsorily; but are at the same time aware that their success depends upon the adherence of the majority of makers. They believe that this adherence would be readily given if the several manufacturers were officially recommended by the Government to coördinate their efforts in the manner proposed. The committee would recommend that legislation should be introduced if necessary to give legal sanction or remove legal objections to such associations.

"In order that the details of the proposed scheme may be worked out, the committee urge that meetings under the auspices of the Board of Trade of the manufacturers of the several products should be called forthwith, and that reports should be presented by each group as to the lines upon which such associations might work."

(2) *Engineering Trades*

"In the United States such combinations as a rule seem to take the form of amalgamations. In Germany trade combinations take the form of the well known cartels. In the case of both countries the object aimed at is, especially by supporting experimental investigations and scientific departments, to coördinate production, to promote efficiency, to eliminate waste, to push home trade, to facilitate export trade, and to unify selling arrangements. In both of these countries the ideal at which trade com-

binations aim is the maximum of production at the minimum of cost. Apparently we had in this country before the war few combinations having for their objects the coördination of production, the pushing of trade, the elimination of waste, the facilitating of export trade, or joint selling arrangements."

(3) *Shipbuilding and Marine Engineering*

"The tendency of the world appears to be in the direction of larger economic organizations, a tendency manifest in shipping as in steel making; and, unless analogous steps are taken by shipbuilders and marine engineers to meet the new situation, it is to be feared that the industries may suffer needlessly to the detriment of the nation. Whilst individualism has been of inestimable advantage in the past, there is reason to fear that individualism by itself may fail to meet the competition of the future in shipbuilding and marine engineering, as it has failed to meet it in other industries.

"We are convinced that the future of the nation depends to a large extent on increased coöperation in its greatest industries severally, whether they be shipbuilding, marine engineering, shipping, or steel making, and also amongst them collectively; and that the best results can only follow from an understanding which whilst recognizing the essential needs of each, will make for mutual coöperation wherever necessary in the interests of the Empire as a whole.

"On these grounds we would urge on our colleagues in the industries the paramount necessity of taking steps towards a closer organization than has hitherto existed—an organization rendered the more immediately pressing by the imminent growth of foreign competition on a large scale."

(4) *Electrical Trades*

"If electrical factories, which are unquestionably necessary on national considerations, are to be maintained in a state of efficiency, steps must be taken at the earliest possible moment to deal with the problem. A sound and permanent industry can be established not only to supply the home market, but to secure a much greater production of the overseas trade of the world. This can be done either by amalgamation among the companies engaged in the industry or by the development of the practice of association for common purposes. In whichever direction action be

taken, the committee is convinced of the need for reform. Only by the creation of strong combinations will it be possible for Great Britain to compete with the great foreign corporations, which not only manufacture, but undertake comprehensive contracts, make powerful financial alliances, and thus exert in every direction greater influence than is possible in the case of any individual firm."

(5) *Textile Trades*

"We urge that every effort should be made by exporters in this country either on their own account, or in coöperation with merchants on the spot, to secure and retain after the war as great a proportion as possible of the legitimate business formerly handled by German distributing houses. The present time offers an excellent opportunity. In Hongkong and Singapore the German houses have been closed and placed in liquidation, and in China and South Africa they have lost ground considerably. In these circumstances it seems to be desirable that British merchants should either open branches in these markets, or coöperate more closely with existing houses on the spot, or finance young and energetic men with knowledge of the markets and encourage them to open businesses on their own account."

(6) *Silk, Lace and Hosiery*

"We are told that at least ten representatives of Nottingham houses visit South America each year, and each carries a similar range of samples. The result is that the cost of traveling and incidental expenses is out of all proportion to the value of the trade done, and it is obvious that individual effort of this kind must be at a considerable disadvantage in competing in overseas markets with German or American selling combines. It seems to us that the remedy lies in some form of combined representation or coöperative selling, having for its object not only the reduction of marketing expenses, but also the systematic working of old markets and the exploitation of new fields, which it would otherwise be impossible for individual firms in a small industry to undertake. To effect this, British distributors should be prepared to sink some of their intense individualism in combined action, overcome their tendency to narrowness and jealousy, and look more to the interests of their respective industries as a whole than they have hitherto done, making sure that

the larger and more prosperous an industry is, the more opportunities there will be for individuals.”*

(b) *New Trade Corporations*

Several organizations were formed to foster trade in general, to look after the interests of the coöperating firms all over the world, and to aid British commerce in specific quarters of the globe.

(1) *The British Commonwealth Union*

The British Commonwealth Union is a new organization to advance the foreign-trade interests of British merchants. Lord Balfour is one of the trustees. According to a circular sent to the leading firms in the United Kingdom,

1. “The general policy of the British Commonwealth Union is—

a. To promote legislation for the advancement of industry and commerce.

b. To support or oppose measures affecting the material welfare of the country.

For these purposes: (a) To organize and coördinate all the business interests of the nation; (b) to secure the coöperation of employers and labor.

2. The policy of the State in relation to industry and commerce after the war should be to afford the maximum of assistance in their maintenance and to interfere as little as possible with their control.

3. This policy can best be realized by: (a) imperial preference; (b) restriction of the importation of manufactured articles of enemy origin; (c) establishment and maintenance under wholly British control of essential key industries; (d) complete power of tariff bargaining; (e) organization of the raw materials within the Empire for the benefit primarily of its component parts; (f) action on the lines of the Paris Economic Conference; (g) strict naturalization laws; (h) encouragement of scientific and technical research by allowances in taxation or by direct Government aid; (i) organization and maintenance of an efficient diplomatic and consular service; (j) development of home resources.”*

* *Board of Trade Journal*, Feb. 14, 1918.

* *Journal of Commerce*, New York, Sept. 19, 1918.

(2) The British Manufacturers Corporation

On September 17, 1918, Sir Charles Mandelberg formally launched at Manchester a plan for securing the coöperation of non-competing manufacturers united for the purpose of organizing a body of agents who would look after the trade of all the combined firms in any particular city or territory. Its chief aim is to secure direct representation by dividing the expenses of the sales agency among a number of firms. In outlining his plan, the author says:

"A coöperative association of manufacturers could by moderate annual subscription per firm raise a sum sufficiently large to secure the best representatives abroad. Each agent in a country or a state would insure that the interests of all firms in the corporation in that part of the world should be safeguarded in a manner impossible now except where a branch is established. The functions of the agent in charge would be not to act as a salesman but as an agent on the spot who is instructed by the member firms. It would be the duty of the agent—

"1. To superintend selling arrangements for every firm in the organization.

"2. To appoint agents for individual firms or combinations if agents are lacking.

"3. To report on the standing of purchasers.

"4. To carry out financial arrangements between producers and purchasers outside of the ordinary business routine.

"5. To act in an advisory capacity to members as to the best methods of securing further trade.

"6. To get early information of orders and to communicate with the local agents of manufacturers concerned. This might be the primary function of an agent-in-charge.

"7. To act as legal representative of any firm in the corporation in case of dispute with customers.

"8. To facilitate communication between manufacturers and their agents. For this purpose, it would be desirable to open offices in the chief manufacturing centers.

"No existing organization covers the same ground as this, neither would it be in conflict with the Government proposals for helping overseas trade. It would not be a corporation for the

earning of dividends. The entire benefits would go to the members."⁷

(3) *British Trade Corporation*

In April, 1917, the British Trade Corporation was formed. According to the official form of declaration made in regard to the charter "the fundamental objects for which the charter has been granted is the giving of financial assistance to British traders and manufacturers, especially in connection with overseas trade, and that the corporation is under an obligation to give full effect to such objects and will be accessible to the business public for the purpose of consultation and otherwise."⁸ The charter reads:

"It appears to us to be desirable that an institution should be formed with the objects of assisting the development of British trade and industries and of procuring for British manufacturers orders in connection with new overseas undertakings, and the financing of contracts in connection therewith. Among others are the following powers: To act as agents for any governments or authorities, or for any bankers, manufacturers, merchants, and shippers, and to carry on an agency business of any description, to promote or finance businesses and undertakings of any description, to acquire, hold or dispose of any interests in railways, ships, canals, docks, harbors . . . and any carrying, transporting, trading, industrial, agricultural, financial or manufacturing business. . . ." The corporation has an authorized capital of £10,000,000, of which £2,000,000 was issued and paid up by December 31, 1917. The report for the year ending December 31, 1918, showed a profit. A dividend of 2½ per cent had been declared.

(4) *The British-Italian Corporation*

In 1916 the British-Italian Corporation, Limited, was formed with a capital of £1,000,000. The stock was taken by the Lloyds Bank and the London County and Westminster Bank.

⁷ *Journal of Commerce*, Dec. 20, 1917; Oct. 5, 1918; *Commerce Reports*, Jan. 8, 1917; *London Economist*, Feb. 9, 1918.

⁸ *British Board of Trade Journal*, June 21, 1917.

The Government agreed to pay a subsidy of £50,000 per annum for ten years, with provision for repayment to the Government of profits in excess of 5 per cent. The British-Italian Corporation holds one-half the stock of the Compagnia Italo-Britannica, whose capital amounts to 10,000,000 lire. British and Italian interests are both represented on the board of directors. The object of the two companies is to develop economic relations between the British Empire and Italy, and to counteract the German efforts at economic penetration.

(5) *The Levant Company, Limited*

To supplement the general activity of the British Commonwealth Union, as well as the specific aid to foreign trade offered by the British Manufacturers Corporation, the Levant Company, Limited, was formed under the auspices of the British Trade Corporation with a nominal capital of £1,000,000. This company is to operate in the Near East, after the manner of the old Levant Company of the sixteenth and seventeenth centuries. It is hoped that this company will succeed to the business of the enemy companies which controlled the trade of Turkey. The company will work through subsidiaries, all of which will be in close touch with each other and with the parent company in London.

Two subsidiaries are already established in Constantinople and Saloniki. Branches will be opened in Serbia, Roumania, Bulgaria, Egypt, Syria, and Mesopotamia. Existing British firms in the East will be invited to coöperate with the Levant Company in the development of opportunities that may arise. The Levant Company will have the aid of the National Bank of Turkey, which will open branches in the important cities to care for British interests.*

(c) *Reorganization of Government Departments to Promote Trade*

The British Board of Trade is an official body, corresponding in some measure to our Department of Commerce. Before the

* *Journal of Commerce*, New York, Jan. 19, 1919.

war its function was largely confined to handling commercial intelligence and statistics, and supervising in some measure bankruptcy and railroads. As with most Government departments, the war caused an expansion of work, and it was felt that in order to prepare for the trade after the war the Board of Trade should be reorganized. Better commercial intelligence service was also desired. Accordingly the Department of Overseas Trade (Development and Intelligence) was created as a separate and independent department by combining branches of the Board of Trade and of the Foreign Office.

(1) *Reorganization of the Board of Trade*¹⁰

"The work of the Board of Trade will be organized in two main departments, viz:

a. *The Department of Commerce and Industry*

"The sections of this department will be (1) Commercial Relations and Treaties, relating to treaties and tariffs; (2) Overseas Trade (Development and Intelligence), to carry on the work of the Late Exhibitions Branch; (3) Industries and Manufactures, a new department dealing with home industries, with questions of policy connected with trade monopolies and combinations, alien penetration into British industries, the promotion of new trades, and matters within the scope of the Board of Trade relating to reconstruction of British industries and trades; (4) Industrial Property, relating to patents, designs, trademarks, and copyrights; (5) Industrial Power and Transport, a new department to consider questions of policy relating to transport in its commercial aspect, including shipping, canal and railway rates and facilities, through railway and ocean rates, shipping conferences, etc., and questions of policy relating to industrial power, including electricity, gas and water power for industrial

¹⁰ Great Britain, *Board of Trade*, Memorandum with respect to the reorganization of the Board of Trade, Parliamentary paper, 1918, (Cd. 8912). Also *Board of Trade Journal*, Jan. 17, 1918.

purposes, the conservation of fuel, petroleum, etc.; (6) Statistics: the Department of Commerce and Industry will keep in touch with the Department of Scientific and Industrial Research. . . . An Advisory Council will be attached to the Department of Commerce and Industry, representing the commercial and manufacturing interests of the country.

b. The Department of Public Service and Administration

"This body will be engaged primarily in the exercise of statutory and administrative functions of a permanent nature relating to trade and transportation which are entrusted to the Board of Trade. It will include the work of the present Marine, Railway, and Harbor Companies and the Bankruptcy Departments."

(2) Creation of the Department of Commercial Intelligence

In 1899 the Commercial Intelligence Branch of the Commercial Department of the Board of Trade was formed. This subsequently grew into the Department of Commercial Intelligence, whose object was to promote overseas trade. During the war the Commercial Intelligence Branch enabled manufacturers to obtain at home those commodities which came from enemy countries and to find purchasers to replace customers in enemy countries. The Department of Commercial Intelligence of the Board of Trade has absorbed the Exhibitions Branch and organized fairs of British Industry and exhibited samples of enemy goods.

The Department of Overseas Trade (Development and Intelligence) was organized in September, 1917, and included the Department of Commercial Intelligence of the Board of Trade, and the Department of Foreign Trade of the Foreign Office. "The consular service and the commercial attaches had been under the control of the Foreign Office, while the trade commissioners in the British Dominions were under the direction of the Board of Trade. The Board of Trade, however, had the power of giving instructions to the consular service in regard to commercial work,

which resulted in overlapping and friction between the two departments." ¹¹

In the reorganized form the combined departments are represented by a Parliamentary Secretary, who is responsible to the President of the Board of Trade and also to the Secretary of State for Foreign Affairs, with regard to matters in their respective departments.

The Trade Commissioners who are to promote trade within the Empire are still to be appointed by the Board of Trade. The commercial attaches and consular service will likewise continue to be subject to the control of the Foreign Office, but there is to be an interchange of staff between the Department and both the Foreign Office and the Board of Trade. However, the new Department of Overseas Trade (Development and Intelligence) will direct the overseas services and keep them in close touch with the business community. The official head of the Department will be an officer appointed jointly by the Board of Trade and the Secretary of State for Foreign Affairs. He will work under the new Parliamentary Secretary. The Department will have three divisions: The Overseas Division, which will be further divided by countries; the United Kingdom Division, which will be further divided by trades and industries; and the Exhibitions Division. ¹²

(ii) *Trade Regulation*

Some of the aspects of the restriction on trade were treated above under the heading of Nationalism vs. Internationalism in Commerce (see p. 99ff). The following section will treat more specifically of preferences in trade between the British Colonies

¹¹ Memorandum of the Board of Trade on the Foreign Office, with Respect to the Future Organization of Commercial Intelligence. Parliamentary Paper, 1917 (Cd. 8715).

Report to the Board of Trade by the Advisory Committee on Commercial Intelligence. Parliamentary Papers, 1917 (Cd. 8815).

¹² The National Foreign Trade Council has a splendid summary of the above in its pamphlet, "World Trade Conditions After the War," April, 1918.

and the mother country, preferences in trade between the Allies, restrictions on alien participation in industry, and tariff policy.

(a) *Report of Trade Committees*

The Board of Trade appointed departmental committees to look into the effects of the war on the foreign trade of the various industries and to recommend measures to be put into effect after the war.

(1) *The Iron and Steel Trade Committee*

This committee points out that self-defense in war time requires a highly developed steel industry and the control of resources of iron. In 1880, Great Britain produced 54 per cent of the combined output of Great Britain, Germany, and the United States, in 1900 28 per cent, and in 1913 17 per cent. Foreign competition, particularly the practice of dumping of semi-finished and finished goods, had caused a serious restriction of the British production of iron and steel and had even imperiled the future of the industry, as it no longer commanded the confidence of the investing public.

The committee therefore recommended:

"a. Various punitive measures against enemy countries, including the prohibition of imports of manufactured or semi-manufactured products of iron and steel and their deprivation of raw materials from sources under British control.

"b. The admission of raw materials free, the encouragement of the development of the supply of raw materials within the Empire, and the Government protection of essential industries.

"c. That anti-dumping legislation be introduced in the United Kingdom, similar to that in force in Canada.

"d. That no iron and steel shall be imported into the United Kingdom which does not bear a recognizable mark of origin.

"e. That customs duties be imposed upon all imported iron and steel and manufactures.

"f. That there should be a maximum, general, and minimum tariff, and that the amounts of the specific duty should be varied according to the changing demands of national policy.

"g. That foreign syndicates, or their representatives, should

carry on commercial and industrial activities only under license from the Government.

"h. That the policy of the United Kingdom be coördinated with that of the Empire, and that India and the Dominions be invited to concede preference to goods of the British Empire.

"i. That British ships shall not carry raw materials or manufactured iron and steel from neutral ports to ports in present enemy countries, and that for a period of three years after the war no conference arrangement on freight combines and rates be committed between British shipowners and present enemies.

"j. That consideration be given to the question of allowing present enemy countries to carry goods to or from British ports or to coal at any British coaling station."²

(2) *The Engineering Trades Committee*

"In the year immediately preceding the outbreak of the European war, Great Britain imported \$72,000,000 worth of engineering goods, distributed as follows: From the United States, \$32,500,000; from Germany, \$20,000,000; from France, \$13,900,000; from Belgium, \$5,700,000. On the other hand, Great Britain exported to Germany \$12,000,000 and to the United States \$4,300,000 of engineering goods. British manufacturers met fierce competition in India because they do not enjoy any tariff preference. Even in Canada, Australia, New Zealand, and South Africa, the preference is insufficient to overcome the disadvantage under which they labor as compared with United States competitors. Although British exports of engineering goods rose from \$140,000,000 in 1903 to \$264,000,000 in 1913, foreign competition grew more formidable every year and gave rise to uneasiness. Germany held a predominant position in Russia, France, Italy, and Roumania. In Chile, Brazil, and China, Britain was outstripped by Germany. The United States and to a lesser degree Belgium, also held the forefront in various markets.

"The committee therefore recommends:

"a. That the importation of enemy engineering products be prohibited, except under license for a minimum period of one year or such longer period as may be deemed expedient, so as to give time for the reorganization of the engineering works here on a business footing after the war.

"b. To encourage trade between the present Allies, the Allies

² *Board of Trade Journal*, July 4, 11, 1918; and *Commerce Reports*, July 29, 1918.

be invited to consider the imposition of a surtax on the products of the present enemy countries.

"c. That raw materials be admitted duty free.

"d. That our general export trade should be subject to as few restrictions as possible.

"The committee was unable to arrive at any conclusion and therefore made no recommendation as to tariffs. The majority believed that the financial needs of the country will compel the imposition of a tariff for revenue and thus will automatically afford trade protection.

"e. The dumping of goods should be prohibited.

"f. That the Government provide for the manufacture of goods essential to the national safety, and for the development of the supply of raw materials for such industries within the Empire."

(3) *The Electrical Trades Committee*

The Electrical Trades Committee recommends that:

"a. The importation of enemy goods should be prohibited for three years after the coming of peace, subject to license after twelve months.

"b. Import duties should be sufficiently high effectively to protect the industry.

"c. Dumping of and reduced transportation rates on imports of electrical goods should be prohibited.

"d. All goods produced in foreign countries by enemy capital or under enemy direction are to be treated as enemy products. Alien enemies should be prevented from continuing to trade within the Empire, unless specially authorized."

(4) *The Textile Trades Committee*

The committee recommends that:

"a. State control should be removed as soon as possible after the war.

"b. Every effort should be made to secure a more extended growth of cotton and a production of silk, flax, and wool within the British Empire.

"c. Steps should be taken by the Government to insure the establishment and maintenance of key industries, as the manufacture of dye materials and knitting needles, in order to make the

"British Board of Trade Journal.

textile industries independent of foreign sources of supply of these articles.

"d. The Government should institute an expert examination of the powers signatory to the Paris Resolutions and of our other Allies with a view to negotiations for reductions in our favor of duties upon textile yarns and goods.

"e. Anti-dumping legislation should be enacted.

"f. Preference should be given to the overseas Dominions if duties are to be levied on imports."²⁸

(b) *The Imperial War Conference*

The Imperial War Conference, a deliberative body, has devoted considerable time to discussing matters of Imperial policy. It has been attended by Cabinet Ministers and other representatives of the Dominions who were in London. The object is to unify the after-war plans of Great Britain and her colonies. The Dominions have been asked to pass legislation discriminating against enemy aliens trading in metals, to coöperate with the Imperial Government in developing the British dye industry within the Empire, to aid in the control of Imperial raw materials as the basis of negotiations with the Allies for joint action, to consider the best methods by which essential raw materials may be obtained; to develop inter-Imperial trade by means of transport, news service, parcel post, emigration from the United Kingdom to the colonies, cable service, and statistics of the Empire. The Dominions are in favor of close coöperation of the various parts of the Empire.²⁹

The movement is not a new one. The Imperial Federation League was established in 1884, to secure the permanent unity of the Empire by means of Federation. The rights of local parliaments as regards local affairs were not to be interfered with, but the resources of the Empire were to be coördinated for the maintenance of common interests and the defense of common rights. In 1887 the first Colonial Conference was opened in London and a delegate advocated the feasibility of promoting a closer union between the various parts of the British Empire by

²⁸ *Commerce Reports*, July 29, 1918.

²⁹ *Ibid.*, Aug. 24, 1918.

means of an Imperial tariff customs to be levied independently of the duties payable under the existing tariffs on goods entering the Empire from abroad, the revenue derived from such tariff to be devoted to the general defense of the Empire. At a meeting in Canada of the Imperial Federation League in 1888, a resolution was adopted that "the Imperial Federation League of Canada make it one of the objects of this organization to advocate a trade policy between Great Britain and her colonies by means of which a discrimination in the exchange of natural and manufactured products shall be made in favor of one another and against foreign nations." The late Joseph Chamberlain, an advocate of closer connections between the parts of the Empire, summed up his views as follows:

"What is the greatest of our common obligations? It is defense. What is the greatest of our common interests? It is Imperial trade."

(c) *Imports Control Bill*

This bill was summarized above in the section on Nationalism in Commerce (see p. 104). Its object is to make possible the prohibition of the importation of goods of specified origin, the prohibition of the exportation of goods of any kind, and the prohibition of the exportation of all goods to any country or place specified.

While the object is to restrict the trade relations with present enemy countries, there seems to be considerable fear that trade after the war will hardly be able to stand any great amount of restriction. The Association of Chambers of Commerce of the United Kingdom sent a protest to the Board of Trade against the passage of the bill. Some Chambers of Commerce favored regulation or control only for a limited period after the war.

(d) *Restrictions on Aliens*

This subject has likewise been covered in the discussion of the British Non-Ferrous Metal Industry Act (see p. 131). Dealing in any way in non-ferrous metal or ore was prohibited except

under license. The conditions under which a license would be granted would prevent any subject of an enemy state, any enemy-controlled corporation, any enemy capital held directly or indirectly, from exercising any influence on the business of winning, extracting, smelting, dressing, or refining, or dealing by way of wholesale trade in non-ferrous metal or metallic ore.

According to the British Nationality and Status of Aliens Bill, adopted by the House of Commons on July 19, 1918, by unanimous vote, no certificate of nationality may be granted for a period of five years after the war to any German subject or any subject of any country at war with Great Britain unless he has served in the British or Allied forces, is a member of a race or community known to be opposed to the enemy governments, or was a British subject at birth.

Apparently, while the trend of British opinion is opposed to restriction of trade with the enemy, there seems to be a strong feeling against permitting economic penetration or the operation of alien enemies in the industry and trade of Great Britain.

(e) Tariff and Boycott

The question of the tariff is still unsettled. Free trade sentiment is still strong. The Liberal Party, the Labor Party, and men like Viscount Bryce and Professor Alfred Marshall, are opposed to protection. The Trade Union Congress, held at Derby on September 10, 1918, adopted resolutions "reaffirming the belief in the principles of free trade, and urging on the Government the danger of imposing tariffs for revenue, as preference to the Dominions or the Allies, or for the so-called protection of industry." The British Labor Party is opposed to any tariff which would increase the cost of living, or raise the price of raw materials or food. It believes that free trade and an open door in the colonies will guarantee peace. However, there is little doubt that the experiences of the war will lead to some form of tariff, particularly with reference to the key industries. While the French Government had denounced all commercial conventions containing a general clause regarding most favored nations,

the Balfour Committee reported against such action on the part of Great Britain, although Bonar Law stated in the House of Commons that the British Government intended to follow the French policy.

Havelock Wilson, head of the Seamen's Union, agitated for a boycott against German goods. Indeed, he received over 900,000 signatures in support of the boycott (up to September 10, 1918). However, neither the Trade Union Congress nor the shipowners favor the scheme. A striking summary of the opposition against the boycott was given by Sir Norman Hill, an authority on British shipping:

"I do not believe that, whatever we do, it will be possible to eliminate from the overseas markets of the world the influence of the population of Central Europe, both as producers and consumers, and even if this were possible, I think the destruction of their productive power would cause world-wide suffering. Its destruction would most certainly put it out of the power of Germany to make good the material loss it has inflicted on the Allies.

"If no British ship enters any German port for the next five years, we may inconvenience, but we shall certainly not destroy Germany's oversea trade. Are we to stand on one side and see the whole of the oversea commerce of Central Europe pass into other hands? Even if every country in the world refuses to send its shipping into German ports, we could not destroy the oversea commerce of Central Europe so long as Rotterdam, Antwerp, and Genoa remain open. If we refuse to sail in and out of Antwerp, we should drive home the ruin of Belgium."²⁸

*C. An Abstract of the Balfour Report*²⁹

"Final Report of Committee on Commercial and Industrial Policy
After the War

"In July, 1916, the Prime Minister of the day (Mr. Asquith) appointed a Committee, of which Lord Balfour was the Chairman, with the following terms of reference:

"To consider the commercial and industrial policy to be adopted after the war, with special reference to the conclusions reached

²⁸ *Journal of Commerce*, New York, October 7, 1918.

²⁹ The official summary of the report is given in full as an appendix; see p. 350.

at the Economic Conference of the Allies, and to the following questions:

"(a) What industries are essential to the future safety of the nation: and what steps should be taken to maintain or establish them.

"(b) What steps should be taken to recover home and foreign trade lost during the war, and to secure new markets.

"(c) To what extent and by what means the resources of the Empire should, and can be developed.

"(d) To what extent and by what means the sources of supply within the Empire can be prevented from falling under foreign control.

* * * * *

"In this report we recapitulate for the sake of making a complete record the conclusions embodied in our interim reports."

"The main object, therefore, of the report which we have now the honor to present is to lay down the general lines of policy upon which we think that permanent provision should be made in the light of the experience of the war for the safeguarding and promotion of British industry and commerce in the future. * * *

(i) *The Scope of the Report*

"The main subjects discussed in this report, in addition to those already dealt with in our interim reports, are accordingly:

"(a) The manner in which imperial resources may be further developed and the supplies of important raw materials assured.

"(b) The treatment of aliens, including present enemy subjects, in respect of certain commercial and industrial occupations in this country.

"(c) The internal reorganization of industry and the assistance which may be rendered by the Government in promoting it.

"(d) The question of financial facilities for trade, and the bearing of taxation upon industrial development.

"(e) The general policy which should be adopted by the state in regard to the manufacturing and commercial interests of the

29th November, 1916, a report on the Importation of Goods from the present Enemy Countries during the Transitional Period After the War.

14th December, 1916, a report on the Treatment of Exports from the United Kingdom and British Overseas Possessions and the Conservation of the Resources of the Empire during the same period.

2nd February, 1917, certain resolutions in regard to the policy of Imperial Preference.

16th March, 1917, interim report on certain essential industries.

British Empire, with special reference to the prevention of 'dumping' and the safeguarding of important staple industries.

"(f) The proposals for the adoption of the metric system of weights and measures and the introduction of a decimal coinage.

*(ii) British Trade and Industry in 1913*²⁰

* * * * *

"We find that in long-established manufactures, with the important exception of the iron and steel trades, British industry had shown in the decade preceding the war great vitality and power of extension, but that in the rise and expansion of the more modern branches of industrial production the United Kingdom had taken only a limited share. Certain branches of production, of great importance as a basis for other manufactures, had come to be entirely or very largely under German control, and in numerous branches of industry, outside the great staple trades, foreign competition had become increasingly acute, and foreign manufactures had secured a strong or even predominant position. In overseas trade British merchants and manufacturers were encountering energetic and successful competition, which is ascribed to a variety of causes, including the adoption by foreign merchants and manufacturers of methods of organization and distribution different from, and in some cases markedly more effective than, those hitherto pursued by British traders."

* * * * *

*(iii) Measures to be Adopted During the Transitional Period*²¹

* * * * *

"(a) The present régime, whereby importation of goods of enemy origin is prohibited, should be continued, subject to license in exceptional cases, for a period of at least 12 months after the conclusion of the war, and subsequently for such further period as His Majesty's Government may deem expedient.

* * * * *

"(c) We recommend that the Government should consider, in consultation with the Allies, the expediency of establishing after the war a joint organization on the lines of the Commission Internationale de Ravitaillement for dealing with the orders of the Allied Governments for reconstruction purposes, and with such private orders as they may find it expedient to centralize."

²⁰ Chapter II.

²¹ Chapter III.

*(iv) The Supply of Materials*²³

* * * * *

"We recommend the establishment of an Intelligence and Advisory Bureau—

"(a) For securing the detailed and systematic collection, examination and dissemination of information as to the needs and resources of the Empire in respect of minerals and metals of economic and military importance, and

"(b) For framing proposals for submission to the proper authorities as to the coördination of existing surveys and investigations and any extensions thereof which may appear expedient."

* * * * *

"As regards alien interests in the sources of supply within the Empire, we think that some Government control, which may take various forms, according to the circumstances of each case, will be necessary in future in respect of a limited number of commodities of vital military importance. * * *

*(v) Essential Industries*²⁴

* * * * *

"We reproduce the proposals made by us in that report for the establishment of a Special Industries Board charged with the duty of watching the course of industrial development, and of framing from time to time, when necessary, either of its own initiative or on the application of interested departments or persons, detailed schemes for the promotion and assistance of industries concerned with the production of (key or pivotal) commodities."

* * * * *

*(vi) The Treatment of Aliens in Respect of Commercial and Industrial Occupations and Undertakings*²⁴

"We state that in our opinion it would not be desirable to impose any special restrictions on the participation of aliens generally in commercial and industrial occupations in this country. In the limited number of cases in which some restrictions or safeguards may be necessary, adequate security can, as a rule, be ensured by requiring disclosure of the facts.

²³ Chapter IV.

²⁴ Chapter V.

²⁵ Chapter VI.

"We consider that for a period after the war it will be necessary to impose special restrictions upon the subjects of the present enemy countries and that this can best be done by means of stringent permit and police regulations."

* * * * *

(vii) *Industrial and Commercial Organisation* **

"We point out that, notwithstanding the strength of the United Kingdom's economic position, there is a widespread feeling that a reconsideration of our industrial and trade organization has become necessary in consequence of the increasing intensity of foreign competition, based largely upon a system of combination. * * * We agree * * * that the individualistic methods hitherto mainly adopted should be supplemented or entirely replaced by co-operation and coördination in respect of (1) the securing of supplies or materials; (2) production (in which we include standardization and scientific and industrial research), and (3) marketing.

"As regards associations for general trade purposes, it is, in our opinion, very desirable that in all important British industries there should exist strong, comprehensive and well organized associations which should be clearing houses of information of common interest, and should be competent to voice the opinions and needs of their respective trades as a whole.

* * * * *

"We think that it would be inexpedient for the Government to enter upon any policy aiming at positive control of combinations in this country, but that it is desirable that some means should be devised for securing to a responsible Government Department adequate information as to the formation of combinations, and that provision should be made for state investigation in special cases. At the same time we think that combinations should, where necessary, be legalized so as to be enforceable between members."

* * * * *

(viii) *Finance and Industry* **

* * * * *

"In our opinion the financial needs of British industry are likely in normal circumstances to receive better examination and

** Chapter VII.

** Chapter VIII.

to be met in a more elastic and effective manner under private banking enterprise than by means of a state-controlled institution.

* * * * *

"In our opinion the remedy for the shortage of capital after the war must be sought mainly in the increase of production and saving.

* * * * *

"Having regard to the far-reaching effects of the tax at its present high level upon industrial reconstruction, we strongly urge that the principles upon which it is based should be fully reviewed at the earliest possible date, with a view to enabling the state to raise a revenue at least as large as at present with less individual hardship and less damage to productive industry. The inquiry should include consideration of the death duties."

(ix) *Fiscal Policy*²⁷

* * * * *

"(a) The producers of this country are entitled to require from the Government that they should be protected in their home market against 'dumping' and against the introduction of 'sweated' goods.

* * * * *

"(c) As regards other industries, protection by means of Customs duties or Government assistance in other forms should be afforded only to carefully selected branches of industry, which must be maintained. * * *

"(d) Preferential treatment should be accorded to the British Overseas Dominions and Possessions. * * *

"(e) * * * The denunciation of existing commercial treaties is unnecessary and inexpedient, but the present opportunity should be taken to endeavor to promote our trade with our Allies. * * *

"We recommend that a strong and competent board, with an independent status, should be established to examine into all applications from industries for state assistance. * * * It should have constantly in mind the safeguarding of the interests of consumers and of labor. * * *

²⁷ Chapter IX.

CHAPTER IV

GERMANY

The following chapter on Germany, in conformity with the general scheme, will treat of the facts concerning German foreign trade, of the proposed after-war policies for the resumption, regulation and promotion of trade, and in a final section will deal with the German policy of defense against a boycott by the Allies.

A. Facts Concerning German Trade

The outstanding features of Germany's trade before the war were that she drew upon every continent for her raw materials, that she worked them up in her highly diversified industries, and that she exported her products to every country of the globe. During forty years of peace her dependence upon the other nations greatly increased, as did also their dependence on her. The war resulted practically in an elimination of her foreign trade and cut her off from the chief sources of raw materials so that she was compelled to resort to substitutes for the common commodities of daily use. Her trade balance changed, her foreign exchange rates fell, she lost Alsace-Lorraine and her colonies. Industries which had hitherto been controlled in Germany were developed elsewhere, and new trade currents more or less permanent were set up. Not least is the development of a fierce hatred of Germany which will survive the abandonment of an official economic boycott against her.

(i) Pre-War Conditions

(a) The Distribution of the World's Resources

In the first chapter on nationalism and internationalism in commerce, statistics were presented of the distribution of the prin-

cial resources of the world. The following figures of average pre-war production were presented by Eugene Baie at the Fourth Interparliamentary Commercial Conference at Paris.

PRE-WAR PRODUCTION OF LEADING COMMODITIES BY ALLIES AND CENTRAL POWERS.

Article	Allies	Central Powers
	<i>Tons</i>	<i>Tons</i>
Wool.....	1,138,000	97,000
Cotton.....	4,659,000	.....
Silk.....	229,000	16,000
Flax.....	1,225,000	100,000
Hemp.....	912,000	88,000
Jute.....	1,482,000	.....
Oil seeds.....	8,230,000	166,000
Olives.....	1,345,000	.....
Rubber.....	129,500	.....
Iron ore.....	104,000,000	37,000,000
Copper.....	780,000	29,000
Lead.....	1,000,000	172,000
Zinc.....	1,513,000	678,000
Nickel.....	389,000	14,000
Tin.....	102,000	635
Aluminum.....	529,000	10,000
Manganese.....	2,220,000	124,000
Petroleum.....	50,000,000	700,000

Germany is absolutely dependent upon the Allies for her cotton, hemp, jute, rubber and vegetable fats. Indeed, it is only in the iron and allied ores and in coal that she is self-sufficient; her dependence upon the world for her other raw materials is a matter of degree.¹

(b) *Germany's Need for Raw Materials*

During the pre-war period Germany's imports of raw materials constituted the bulk of her inward commerce. Not only did she import materials which she did not derive from her own soil, but owing to the differences in quality she imported some kinds of raw materials of which she had an abundance in a limited number of grades. Thus, in 1913, the excess of imports over exports of wheat was 2,008,000 tons, valued at 329,000,000 marks; of

¹ *Journal of Commerce*, New York, Aug. 6, 1918.

barley, 3,232,000 tons, valued at 389,000,000 marks; cattle and swine, 171,000,000 marks; and fodder, 370,000,000 marks.

The dependence of Germany upon foreign raw materials was increasing very rapidly. As Germany's industry expanded and her exports increased, her imports naturally had to rise in proportion. In the sixteen years from 1896 to 1912, her imports of a group of important tropical raw materials almost quadrupled. The value of imports in million marks is given herewith:

Commodity	1896	1912
Rubber.....	34.8	174.6
Cotton.....	238.8	595.0
Cocoa.....	12.1	63.6
Sesame.....	5.5	35.5
Palm nuts and copra.....	26.7	195.3
Oil cake.....	29.7	116.5
Rice.....	19.1	102.6
Total.....	366.7	1283.1

* At normal rates 1 mark = \$0.2382.

It is worthy of note that in 1912 almost one-half these imports, in value, came from the British Empire, approximately 608,000,000 marks.²

For 1913, the value of other leading raw-material imports was as follows:³

Commodity	Million Marks
Iron ores.....	219.3
Copper.....	324.8
Lead ores.....	35.3
Zinc ores.....	32.5
Tin ores.....	42.1
Wool.....	362.7
Skins.....	377.7
Flax.....	39.7
Raw silk.....	223.0
Wood products.....	355.0
Chemicals.....	395.0
Tobacco.....	136.0

This array of figures is a testimony to the amazing folly of Germany's rulers in precipitating the war, but they are equally

² *Norddeutsche Allgemeine Zeitung*, Jan. 19, 1918.

³ *Sued Deutsche Monatshefte*, Jan., 1918.

convincing evidence of the impracticability of a boycott and of its damaging effect on Allied producers of raw materials.

(c) *The Need for Foreign Trade*

With her large population and limited area, Germany could thrive only by becoming a highly industrialized state, dependent upon outside sources for raw materials and exporting finished products broadcast. Indeed, it has been estimated that one-quarter of her population lived directly by foreign commerce.⁴ There were 950,000 people engaged in Germany's textile trades alone, and her merchant fleet employed about 96,000 men on board ships, to say nothing of the harbor and dock workers and those in related occupations.

In a prophetic article, written before the war, the importance of foreign trade and the danger of its complete disorganization in case of war were pointed out.

"The 6,000,000 engaged in textile, leather, and clothing industries, in shipbuilding and the provision trade, might be reduced to absolute beggary if our foreign commerce broke down. The 17,000,000 who work at other trades would suffer severe privations. The basis on which we have built up our fabulous edifice of foreign trade is comparatively narrow and weak. Its foundations rest not at home but abroad, in those countries which sell us food and raw material and buy our manufactures. Foreign trade is the strength and the Achilles heel of the German Empire."⁵

(d) *Statistics of Foreign Trade*

Before the war Germany exported about a billion marks less than she imported. The difference was balanced by her earnings of about 500,000,000 marks from ocean transportation, and lesser sums in insurance fees and in interest on foreign securities. The development of the foreign commerce of Germany is indicated in the following table (figures in million marks, 000,000 omitted):

⁴Herr R. C. Krogmann, of the Hamburg Chamber of Commerce.

⁵*Die Bedeutung des Aussenhandels für unsere Volkswirtschaft.* Nauticus, Berlin, June, 1914.

Year	Imports	Exports	Unfavorable Trade Balance	Ratio of Exports to Imports
				<i>Per cent.</i>
1909.....	8,527	6,594	1,933	77
1910.....	8,934	7,475	1,459	84
1911.....	9,706	8,106	1,600	84
1912.....	10,692	8,957	1,735	84
1913.....	10,770	10,097	673	94

Of her total trade, that with the Western Powers, that is the Allies, was greater than that with the Eastern Powers. Her trade with the Western Powers (in millions of marks) was in 1913:

Country	Imports	Exports
United Kingdom.....	843	1,161
France.....	552	689
Italy.....	305	401
United States.....	1,586	698
British Colonies.....	1,230	347
Total.....	4,516	3,296

To Austria-Hungary, Russia, Bulgaria, Turkey, and Roumania, the exports from Germany in the same year amounted to 2,639,000,000 marks, and imports from those countries to 1,989,000,000 marks.⁶

An analysis of the foreign trade of Germany by groups of countries shows that her trade with the powers she arrayed against herself had been increasing more rapidly than did her trade with the neutrals or with her allies. Her trade with British India had increased more rapidly than her trade with the South American countries or with the Dutch East Indies.

A notable feature of Germany's pre-war trade was that there was an excess of imports in the overseas trade, which was partly covered by an excess of exports to the European countries. The following tables show the relative increases in the import and export trade of Germany with the various continents and the resulting trade balances.

⁶ *Norddeutsche Allgemeine Zeitung*, June 6, 1918.

GERMANY'S IMPORT AND EXPORT TRADE AND TRADE BALANCES, 1907 AND 1912.

[Figures in million marks.]

EXPORTS.

Continent	1907	1912	Increase	
			Actual	Per cent.
Europe.....	5,045.8	6,743.6	1,697.8	34
Africa.....	136.4	185.3	48.9	36
Asia.....	354.8	420.2	65.4	20
America.....	1,233.1	1,496.4	263.3	21
Australia.....	68.6	99.9	31.3	46
Total, excluding Europe...	1,792.9	2,201.8	408.9	23
Total.....	6,838.7	8,945.4	2,106.7	31

IMPORTS.

Continent	1907	1912	Increase	
			Actual	Per cent.
Europe.....	5,144.2	6,008.4	864.2	17
Africa.....	303.3	478.6	175.3	58
Asia.....	741.0	1,006.3	265.3	36
America.....	2,310.1	2,885.4	575.3	25
Australia.....	239.1	304.2	65.1	27
Total, excluding Europe...	3,593.5	4,674.5	1,081.0	30
Total.....	8,737.1	10,682.9	1,945.2	22

BALANCE OF TRADE.

(+ Excess of exports; - excess of imports.)

Continent	1907	1912	Increase
Europe.....	- 98.4	+ 735.2	+ 833.6
Africa.....	- 166.9	- 293.3	- 126.4
Asia.....	- 386.2	- 586.1	- 199.9
America.....	-1,077.0	-1,389.0	- 312.0
Australia.....	- 170.5	- 204.3	- 33.8
Total, excluding Europe...	-1,800.6	-2,472.7	- 672.1
Total.....	-1,899.3	-1,737.5	- 161.8

The above table shows that Germany's exports were growing more rapidly than her imports in the five-year period prior to the war. Furthermore, her exports to the European nations who later constituted the Entente were increasing faster than to the neutrals. Her exports to the British Dominions were rising at a rate as great as, and in some cases greater, than her exports to neutrals, or to her own colonies. Imports into Germany from the non-European countries were developing most rapidly. The rate of increase was also very high for imports from the British Dominions. While the increase of total imports into Germany

during the five years, 1909-13, was 26 per cent, the increase in the imports from India were 71 per cent; from British West Africa, 55 per cent; and from Canada, hardly a fair case, 700 per cent.

GERMAN FOREIGN TRADE BY COUNTRIES.

[From Statistisches Jahrbuch für das Deutsche Reich; figures in million marks.]
(+Excess of exports; -excess of imports.)

Country	Imports			Exports			Balance of Trade	
	1909	1913	In-crease	1909	1913	In-crease	1909	1913
<i>Europe</i>								
<i>Belligerents:</i>			<i>Per cent.</i>			<i>Per cent.</i>		
United Kingdom.....	723	876	21	1,015	1,438	42	+203	+562
France.....	485	583	21	455	700	74	- 30	+207
Russia.....	1,364	1,425	4	445	880	98	-019	-545
Belgium.....	200	344	10	340	551	58	+ 59	+207
Italy.....	288	318	11	280	303	36	+ 1	+ 75
Roumania.....	65	80	23	57	140	146	- 8	+ 60
<i>Neutrals:</i>								
Netherlands.....	253	313	24	454	604	53	+201	+382
Switzerland.....	103	213	31	413	536	30	+250	+323
Denmark.....	135	192	42	190	264	45	+ 61	+ 92
Sweden.....	142	224	58	156	230	48	+ 12	+ 6
Norway.....	37	82	122	105	162	54	+ 68	+ 80
Spain.....	124	199	60	60	143	107	- 55	- 56
<i>Teutonic Ally:</i>								
Austria Hungary.....	735	828	10	767	1,105	44	+ 12	+277
<i>America</i>								
United States.....	1,263	1,711	35	606	713	10	-657	-998
Canada.....	8	64	700	25	61	144	+ 17	- 3
Argentina.....	438	405	13	175	266	52	-263	+229
Brazil.....	234	248	6	92	200	118	-142	- 48
Chile.....	144	200	39	58	98	60	- 86	-102
<i>Asia, Africa and Oceania</i>								
British India.....	317	542	71	70	151	91	-238	-301
British West Africa.....	87	135	55	12	17	42	- 75	-118
British South Africa.....	62	70	13	38	47	24	- 24	- 23
Australia.....	233	296	27	58	80	54	-175	-207
Dutch East Indies.....	185	228	27	40	90	148	-145	-129
German East Africa.....	8	15	88	12	17	42	+ 4	+ 2
Kamerun.....	11	13	18	7	12	72	- 4	- 1
Other Countries.....	713	1,070	34	622	981	36	- 91	- 95
Grand Total of German Foreign Trade.	8,527	10,770	26	6,504	10,097	53	-1913	-673

The exports of Germany were outstripping her imports in her trade with Europe, but the reverse was true in the case of her trade with the other continents. In other words, Germany's imports of raw materials from the undeveloped countries increased more rapidly than her exports of finished goods to them. She became more highly industrialized and supplied the matured industrial nations of Europe. Germany became, to a large extent,

the workshop of the world. Her development in this direction in the brief five years before the war is so striking that her rulers must have been either stupid or insane to bring on a war in the face of such remarkable progress during peace times.

As an illustration of the importation of raw materials from the backward countries, take the oil-seeds industry. Germany imported these raw materials chiefly from the British colonies which, in 1913, exported about 2,768,000 tons annually, valued at about \$165,000,000. India furnished linseed, cotton seed, ground nuts and rape and castor seed. Egypt furnished cotton seed. The Straits Settlements and the Pacific Islands exported copra. British West Africa shipped palm kernels and ground nuts. Great Britain, by contrast, imported in 1913, less than 1,000,000 tons of British oil seeds, valued at less than \$50,000,000. Half of the total exports of copra from the British Empire and three-quarters of the palm kernels from British West Africa were shipped to Germany. Hamburg was the principal city in the trade in oil nuts and oil seeds and Harburg, the nearby city, was the largest seed-crushing and oil-producing center in Europe, with an output of about 800,000 tons, valued at about \$63,000,000 annually.⁷

It was the absence of trade barriers that made Germany's rapid growth in imports of raw materials possible. Pre-war commerce apparently was predicated on permanent peace. Side by side, two conflicting forces were operating in Germany. On the one hand the forces of economic internationalism were making for the industrialization and the prosperity of Germany. On the other, the forces of militarism and chauvinism were striving to destroy the very foundations upon which the welfare of the Empire was based. Had the pre-war conditions continued, had the German military clique possessed sufficient understanding of the economic bases of her prestige, Germany would probably have conquered the world with the arts of peace. After the economic crash caused by the war, the ante-bellum state of the foreign trade of Germany is of interest only as a basis for understanding the economic policies which are projected in Germany.

⁷ *Journal of Commerce*, May 13, 1918.

(ii) The Effects of the War

The economic effects of the war on Germany were drastic and severe. She was cut off from access to the source of raw materials. Substitutes had to be developed. She lost Alsace-Lorraine with its iron ore and potash. She lost her colonies, with their variety of tropical products. Her trade was practically wiped out, her trade balance was upset. Her foreign-exchange rates tumbled. German commerce was also indirectly affected. The economic isolation of Germany compelled the nations that had been previously dependent upon her either to establish new industries to replace the commodities that came from Germany, or else to buy these goods elsewhere. New trade currents were set up, making a short circuit, as it were, whereby Germany was cut out. Significant also is the fact that Germany aroused a universal hate which will outlive the abandonment of any official economic boycott.

The effects of the war were well summarized by August Miller, the Socialist Secretary of State in Charge of Economic Reconstruction.

"The Entente countries have struck deadly blows at German competition and have reconstructed their industrial methods on a most modern basis. The few monopolies that Germany had are being menaced or destroyed. She has lost the potash of Alsace Lorraine, and the monopoly of the world's metal trade. The Anglo-Saxon monopolies have the advantage of resting upon the actual possession of the raw materials, whereas the German monopolies were based upon treaties. The Entente countries will be able to dictate the price of raw materials to Germany. America and other countries will now tend to export manufactured goods instead of raw materials, not cotton but textiles, not iron, but machinery. Germany will have to reckon with a 'deliberate enemy will' to exclude Germany from the world's markets."^a

(a) Lack of Raw Materials

The basis of German foreign commerce is the importation of raw materials. Without it, there can be neither industry nor export trade.

^a *Berliner Tageblatt*.

"How can German agriculture exist without the foreign phosphate rock? What meat and fat can we produce in Germany without importing fodder and oil cake? We cannot do without spinning material, oils and seeds, india rubber, tar, copper, nickel, manganese, phosphates, skins and hides, that are imported."*

The lack of raw materials during the war crippled German industry. Small plants have been closed as a result. The scarcity affected not only the manufacturer but also the consumer. Tobacco was limited in its sale to three cigars at a time, and these were made up in part of the leaves of rose and of sour cherry. Underwear, shirts, socks and shoes were practically unobtainable. To get a new suit of underwear two old ones had to be given. Persons having more than two pairs of hose could obtain no more. Bedsheets were not to be had at all. The rich were requested to give up spare old sheets, tablecloths, and towels for the use of the poor. Appeals were made for old clothes which the laborers needed. Prices, of course, were very high. Shoes, obtained after a delay of two to four months, cost about 150 marks per pair (at the normal rate, 1 mark equals 23.8 cents). A man's suit cost over 700 marks.¹⁰ The price of yarn rose from 0.04 mark per spool to 1.10 or 1.25 marks. Mending and weaving were practically impossible.¹¹

The effect of the war on the metal supply of Germany was particularly disastrous. Before the war Germany was the largest purchaser of United States copper. She also imported zinc ore from Australia. During the war she was able to get along with aluminum, obtained from Austria, and zinc from Silesia and the Rhine provinces. But at best she was so greatly hampered that she had to melt her church bells, doorknobs, and hardware. She looted Belgium and northern France. She economized in the use of raw materials, and tried to change manufacturing methods or tools and machinery so as to avoid the need for

* Extracts from German periodicals in *World Trade Conditions After the War*, April, 1918, published by National Foreign Trade Council.

¹⁰ Report from Amsterdam, Sept. 18, 1918, to Standard Statistics Company.

¹¹ *Vossische Zeitung*, Nov. 7, 1917.

using scarce metals. For instance, in the manufacture of alloys, the percentage of copper was lowered. Door handles were no longer made of copper, but of zinc and iron. Military decorations contained no copper or brass. Toys and watches were plated with brass and later were made of gray iron. Optical goods no longer had brass trimmings, but instead fittings of an alloy of magnesium and aluminum. Instead of using tin for bearings, zinc was substituted or alloys of cadmium and lead. The same metals were used for plating cans. For soldering, cadmium was used, and wherever possible the soldering operation was avoided. Scientific instruments were made of new materials and by new methods. Zinc was used for brass and the surface was either lacquered or plated with nickel and cobalt to prevent oxidation. In the electrical industry the wires were made of iron or zinc. The insulation was either artificial silk or lacquered paper, as mica from India was no longer available. In gas meters the brass used was reduced by 97.5 per cent. The use of copper and tin was cut to a sixth of the pre-war quantity. Leadplate was used instead of tinplate.¹² Under the spur of necessity new inventions and developments appeared. Before the war the average limit of copper ore smelted was 2.5 per cent metal content. During the war ores as low as 0.7 per cent were treated. The workable limit of nickel ores was reduced from 2.5 per cent to 1.5 per cent. Lead was obtained from deposits of sandstone containing very little lead.¹³

New inventions were developed in all directions to increase the supply of raw materials. By speeding the air current in the manufacture of air nitrates the output was increased about 80 per cent. Lignite was increasingly used as a fuel, and its ozokerite yield doubled. A new treatment of coal yielded an illuminating oil which could be used instead of petroleum products. To overcome the shortage of rubber, mechanical springs were substituted for rubber tires, and the processes in regenerating rubber were further developed.

¹² *British Board of Trade Journal*, July 4, 11, 1918. *Norddeutsche Allgemeine Zeitung*.

¹³ *British Board of Trade Journal*, Sept. 13, 1917.

(b) The Development of Substitutes

Not only was rigid economy practiced, and the pre-war uses of raw materials extended, but new developments in German industry took place during the war. Substitutes were developed apparently for everything except air and water. In the fall of 1918, there were over 7,000 substitutes for articles of food, clothing, and shelter. Indeed, Hugo Preuss, in the *Europäische Staats- und Wirtschafts Zeitung* (October 20, 1917), speaks of the herculean efforts which Germany was putting forth during the war merely to live. He predicted in "The Twilight of Autocracy" the fall of a régime which could not better utilize the inventive powers of its scientists. At the fairs at Leipzig, many substitutes were exhibited. For pepper, a domestic substitute was used, and for tea, strawberry leaves or linden blossoms, which simulated the color but did not stimulate. For marmalades there were a great number of substitutes made of vegetables. Soap was made from vegetable oil and pumice stone, but it would not lather. Artificial leather was produced in great variety. For human hair, silk was originally used, and subsequently a substitute for silk. Spun glass was used for doll's hair.

The shortage of raw material was most acute in the textile field, because of the difficulty of getting anything to replace it. Germany was dependent upon foreign countries for its cotton as well as its wool and flax. The progress in the development of textile substitutes was greater than in any other field. The three chief materials used were paper, wood pulp or cellulose, and nettles. At the third German textile exposition, held at Leipzig in August, 1918, many such substitutes were exhibited.

A brief description follows: Textilite is made by twisting a paper thread and a fiber thread, and is used as a substitute for linen and jute. The output of the industry is insignificant compared with that of the cotton industry before the war, 88,000,000 pounds of paper yarn being produced in 1918. This compares with about 1,400,000,000 pounds of cotton imported from the United States alone in the year preceding the war. The use of paper yarn is confined chiefly to the weaving of small mats, car-

pets, blankets, bags, and leather substitutes. Rough clothes for workmen, sail cloth, curtains, and bed and table linen have also been made. Because the public had no alternative it had to be content to use the paper-textile products, but even these were limited in supply, chiefly because of the demand for clothes for the army. In addition, while there was no shortage of wood for the manufacture of paper, there was a decided lack of coal, chemicals, and machinery for making and spinning the paper yarn. Regarding the permanence of the paper-yarn industry, there is much question. Even during the war the paper was mixed with wool, shoddy, and waste cotton. There is also the question of price, which, after the war, will make cotton and wool more desirable, as cloth made of paper yarn is very costly. As an indication of the prospects of the industry after the war, it is significant that paper spinning has been known for twenty years prior to the war, and the output was limited to a few products.¹⁴

Cellulon is a cotton and jute substitute which is made directly from pulp. Textilite is made by spinning long strips of paper which are run off reels through water. Cellulon, however, is made from wet pulp which is spun directly as it comes off a circular drainer. Another cellulose product is *stapelfaser*, which is made somewhat like artificial silk. The cellulose is treated chemically, and becomes a jelly-like mass, which is squeezed under high pressure through small holes in plates. The resultant fibers are twisted into threads and dried. This material has several defects. It is not so washable as cotton or wool. In fact it tears when wet. The extent of the industry is insignificant as compared with the wool industry before the war. In times of peace Germany imported about 200,000 tons of wool and about 400,000 tons of cotton per year. To produce 10 tons of cellulose fiber daily, or about 3,000 tons per annum, requires a very large plant and a very considerable amount of capital. The cost is almost prohibitive, about 6 marks per kilo, or 70 cents per pound. If it is used after the war, it will probably be in conjunction with

¹⁴ *Commerce Reports*, Sept. 4, 1918; Oct. 26, 1918; Feb. 10, 1919; *Handelsberichten, The Hague*, Nov. 14, 1918.

cotton or wool, the addition of either of which makes it washable.¹⁵ In addition to the paper and cellulose substitutes, there were several fiber plants, such as nettles, cat tail, cotton grass, and broom. The hair of the angora rabbit was also used. A company was formed, the Nettles Cultivation Society, which planted nettles on waste lands, in forests, and in cultivated fields. The society paid the nettle collectors and in addition gave them as a bonus a spool of thread made of mixed nettle yarn. The spinning of nettle fiber was facilitated by an invention for the extraction of the glutinous matter of the plant. The industry, however, is insignificant. A total of 1,200 tons of nettle fiber was produced in the last year of the war, as compared with about 400,000 to 500,000 tons of cotton imported annually before the war. Peat fiber has also been used in conjunction with wool for men's clothing. However, it takes 5,000 pounds of peat to produce 100 pounds of fiber, and the cost of the finished product is very high.

On the whole, taking the opinion of Germans as a guide, substitutes have failed. The two chief materials which Germany lacked were fats and textiles. Without fat there was no soap made. Lack of soap meant chemical substitutes. Chemical substitutes ruined clothes. And clothes require wool and cotton.¹⁶

At the end of 1917, there were 250 factories in Germany producing paper yarn. Although the paper products did replace cotton and jute, it was difficult to produce a strong, water-resisting, and at the same time fine and soft, material. However, as far as jute was concerned, the British admit that if, owing to the high freight rate or other cause the price of jute should be high, there is a possibility that the paper substitutes may "develop into a menace to established British textile trades. The cost of production is obviously of great importance, and there is no reason why wood pulp should not be produced cheaply."¹⁷

¹⁵ *Commerce Reports*, Sept. 23, 1918; Sept. 25, 1919; Jan. 9, 1919; reprinting material from German newspapers.

¹⁶ Emil Zimmermann in the *Taegliche Rundschau*, Asso. Press. Report, Sept. 10, 1918.

¹⁷ *British Board of Trade Journal*, July, Aug., Sept., 1918.

(c) The Loss of Alsace-Lorraine and of the German Colonies

The loss of the African colonies deprived Germany, temporarily at least, of a source of tropical products, vegetable oils, oil seeds, rubber, hardwoods, etc. Furthermore, the potential output of raw materials of the colonies had hardly been developed. But the return of Alsace-Lorraine to France struck a still more vital spot in German industry. "Alsace-Lorraine was not only one of the most highly developed manufacturing parts of the Empire, but also one of the chief sources of raw materials, the loss of which, unlike the loss of an industry, is final and irreplaceable. Iron ore, potash, and petroleum, are the resources of the two provinces. Alsace produced 42 per cent of the petroleum output of Germany, which amounted to 120,000 tons. The loss of the Alsatian potash deposits deprives Germany of the world monopoly which it enjoyed, and takes away from it one of its few weapons of economic warfare. The potash monopoly enabled Germany to fix the price for foreign markets above the price for domestic consumption and to exact trade favors in return for the sale of potash. . . . The most severe blow is the loss of the iron-ore deposits. Without the acquisition of the Lorraine deposits in 1871, the astonishing development of the German iron and steel industry would have been impossible. Within the two decades preceding the war German iron and steel production increased from a few million tons to 19,000,000 tons. It outdistanced by far the British production, and was only 10,000,000 tons behind America's output. Not only the iron and steel production of Alsace-Lorraine, but also that of the entire western part of Germany, particularly in Rhenish Westphalia and the Saar districts, depended on Lorraine minette ore. The Lorraine and Luxemburg mines supplied in 1913 28,500,000 tons of iron ore, out of a total of 35,000,000 tons for the whole of Germany, or 77 per cent, on the basis of metallic content. In 1913, Germany imported from Sweden, Spain, and Russia 14,000,000 tons of ore, with a metallic content of 7,700,000 tons. The loss of Alsace-Lorraine will deprive her of twice

the amount, a loss which will seriously cripple German economic life." ¹⁸

(d) *Changes in the Trade Balance*

As noted above, before the war Germany had an excess of imports which, however, was continually decreasing as a result of the more rapid increase of exports. In 1913, her excess of exports to Europe amounted to 1,789,500,000 marks, but her excess of imports from America, Asia, Africa, and Australia, was 2,459,900,000 marks. Her net adverse balance of trade was 670,400,000 marks. These trade relations have been revolutionized. Germany has been compelled to look to eastern and southeastern Europe instead of overseas for her raw materials and food. Furthermore, the west European markets, which constituted Germany's best customers, will have a diminished purchasing power, whereas the overseas countries are themselves manufacturing their raw materials in newly developed industries. The result may be that in the trade of Germany with the overseas countries the excess of imports into Germany will decline. However, German trade prospects will be affected by severe competition on the part of the United States and Japan, by the exhaustion of raw materials in Germany, and by trade regulations after the war.¹⁹

Before the war Germany paid for imports of raw materials needed in her industries by exports of finished goods. Furthermore, her shipping charges, insurance fees, and income from investments in foreign countries gave her a favorable exchange rate, and made it possible for her to import gold. However, the war has completely revolutionized these trade relations. Her imports have far exceeded her exports in her limited trade with the neutrals. There was no income from ocean freights, from insurance, and from foreign investments. The outlook is that for some time Germany will have an excess of imports in her foreign trade. To pay for her imports she must export. This she cannot do without first importing raw materials which can be paid for only

¹⁸ Dr. Louis Binner, *Berliner Tageblatt*, Oct. 19, 1918.

¹⁹ *Wirtschaftsdienst*, June 7, 1918.

by loans. The annual interest charge will constitute an invisible debit in her trade balance.²⁰

(e) *Foreign Exchange Rates*

The conditions above described were reflected in the fall of German exchange. Of course there were other influences, such as the issue of a tremendous volume of notes resulting in the depreciation of the currency. To the extent that it is due to an excess of imports and not to inflation the decline in exchange rates usually encourages exports and restricts imports. Further, a foreign buyer of domestic goods had an advantage over the domestic buyer.²¹ The effect of the low exchange rate of the German mark made it possible for German manufacturers to underbid their Swedish competitors. As a result, the leading Swedish association of manufacturers, the Sveriges Industrie-foerbund, sent a petition to the Minister of Finance asking for an increase in duties to compensate for the depreciation of exchange rates.

(f) *The Effects on Germany's Customers*

During the pre-war period Germany had built up a large trade in specialties, like dyestuffs, ceramics, optical glass, and chemicals. The nations of the world became aware of their dependence upon Germany only when they isolated her by a blockade. Germany's customers for these goods have, during the war, built up their own sources of supply, the so-called key or pivotal industries. They have gone further. They have, by Government aid, by tariffs, and by other means, assured the continued existence of the domestic industry. For instance, the United States imported about 250,000 tons of potash per year before the war. There has since been developed an output of about 40,000 tons per annum from the deposits of Searles Lake. No matter what

²⁰ *Preussische Zeitung*, Jan. 3, 1918. Review of "The Effects of the War on German Industry," by P. Meersman.

²¹ Dr. Oscar Stilich, *Deutsche Industriebeamten Zeitung*, Apr. 26, 1918.

steps Germany may take to regain her foreign market, it is highly improbable that other nations will permit the industries developed during the war to languish or to be throttled by German competition. Besides, new trade currents have been set up, which will result in the elimination of Germany as a jobber or redistributor. Germany smelted the zinc ores of Australia and the tin ores of the Dutch East Indies and reshipped the metal. The isolation of Germany during the war compelled other nations to import the ores direct. The shortening of trade routes between the countries bordering on the Pacific is probably a permanent change in international commerce. Germany is the loser by this development. The disorganization of German foreign trade during the war has forced a new trade alignment, in which her competitors have taken her place.

Not the least of the effects of the war on Germany's competitors is the "legacy of hatred and bitterness against Germany, not only among the powers now at war against her, but also among the neutrals who have been alienated by her conduct."²² Even though the official economic boycott of Germany is abandoned, the citizens of the Allied and neutral countries will discriminate against German-made goods for a long time. "We must reckon with the probability that the war in the economic field will continue without regard to treaties of peace. Our enemies are not old women."²³

B. Policies Proposed

German merchants, cut off from their foreign connections, and idle for four years, had ample time to indulge in speculation as to their future trade plans. A fundamental question with them was the choice of the two alternatives—economic self-sufficiency or continued reliance on international trade. Some German minds are not aware of the impossibility of economic independence for any country, to say nothing of a country like Germany, which was always vitally dependent upon imported raw materials.

²² Capt. Von Persius, quoted in *London Economist* Nov. 10, 1917.

²³ Von Stein, Secy. of Bureau of Economics, Associated Press, May 13, 1918.

The problem of the resumption of trade was discussed in Germany from many angles, as the shortage of shipping, the adverse exchange rates, and the lack of raw materials. Policies of trade regulation have been hailed as panaceas and have been equally ardently opposed. Trade-promotion plans in great number have been devised during four years of enforced leisure. Many of them bear the distinct hallmark of closet speculation.

(i) *Self-sufficiency vs. International Activity*

The alternatives of the "closed state" versus the international trading state have been discussed in the German magazines ever since the Paris Economic Conference. Professor Edgar Jaffé, of Munich, wrote several articles, the gist of which follow.²⁴ Germany may follow either of two mutually exclusive courses. The first is to renounce the idea of an international economic policy and to rely upon the military power of the nation. Economic imperialism would be the motive. Complicated protective tariff systems, policies of exclusion, a limitation of international law, the drawing of small nations into a sphere of influence of neighboring powers, the absence of freedom of the seas in war time, the prospect of economic and political war, all these policies would be necessary to carry out the idea of a closed economic state. Exports would be limited to surpluses and imports to prime necessities. Foreign trade would be avoided rather than sought.

The alternative is a modified form of free trade. Large and small states would live peacefully side by side. There would be an unhampered exchange of products between all the countries of the world. There would be free access to all colonies irrespective of the control of the mother country. Politically, the policy would mean international disarmament on land and sea, compulsory arbitration of disputes, freedom of the seas, and a community of interest in all colonies.

²⁴ *Revue Politique Internationale*, Jan., Feb., 1918; *Europäische Staats- und Wirtschafts Zeitung*, Jan. 12, 1918.

However, the choice of alternatives does not rest with Germany. Indeed, no one state can determine its fate by itself. The destiny of the world is in the hands of all the powers, although England and the United States have a commanding position because of their control of raw materials. However, if fate should decide in favor of an economic war, Germany will not lose hope. She coped with the situation before and during the war, and will do so after its close. The Antwerp-to-Bagdad scheme was merely Germany's retort to the Allied economic conference at Paris. The Mittel-Europa plan was a creature of necessity, and became increasingly prominent as the result of the blockade. Whether peace or war is to be accepted as a permanent principle in the life of the nations depends upon the decision of the Allied Powers.

Even during the war there were in Germany some vigorous opponents of the policy of self-sufficiency.²⁵

"It is a remarkable fact, in truth a belated historical joke, that there should be in Germany any number of people who regard world economics as an evil and preach their abandonment. They demand the development of a self-contained Germany or a German national economy, a return to the 'closed commercial state' of Fichte. They advise us of our own free will to adopt a policy which the enemy has failed to force upon us. Such a self-contained Germany we could have had without any war, without any sacrifice of millions of men and billions of money. Have the prophets of the closed state realized the implication of their doctrine? Has the German people been on the wrong track for a half century? An economic policy which a people adopts results from its inner nature and tendencies. They cannot be arbitrarily changed. We have become a world power because we could not help it. We must remain so for the same reason.

"In order to pay for our imports we must export our manufactures, engage in shipping and foreign trade, and invest our capital abroad. No sophistries can get around this fact. The figures of our foreign trade show how large a part of our requirements come from abroad and are paid for by the products of our industries. Exports have enabled Germany to increase her production, to lower her costs, and to stabilize her industry

²⁵ Prof. A. Hettmer, "Der Friede und die Deutsche Zukunft," extracts from *Das Echo*, Jan. 10, 1918.

by diversifying her export outlets, and so avoid the dislocation of her industries by disturbances in any one market. Our foreign activities, such as shipping, shipbuilding, and the construction of railways and public utility plants in foreign countries, employ a large number of men and cannot be dispensed with.

"Admittedly Germany must avoid that one-sided development in industry and commerce which has characterized England, where the production of food and raw materials has become a matter of secondary consideration. In order to maintain a rounded economic development and to meet political threats, we must increase the output of a variety of essential materials. However, under a strict policy of economic independence, the German people could not continue to exist. It certainly could not grow in numbers and power. Without her foreign activities Germany ceases to be a world power."

(ii) *Plans for the Resumption of Trade*

(a) *Prospects and Problems*

The leaders of German commerce and industry are under no illusions as to the difficulties which they will have to face in resuming their trade and in attempting to recover their pre-war position. Among the difficulties of the transition period are the scarcity of tonnage and of foreign credit for the importation of raw materials and of food. The reduction of physical strength, the loss in will power and in confidence, the destruction of capital, the enormous cost of the war, and the threat of exclusion from the Allied sources of raw materials, further complicate the problem.²⁶ Before the war, Germany imported 2,500,000,000 marks in foods, and 4,500,000,000 marks in raw materials. Independence of overseas imports is out of the question, for even if substitutes were developed some of the raw materials incidental to their production would have to be imported.²⁷

Materials which Germany most needs are textile fibers, hides and skins, ores, rubber, hardwoods, oil seeds, animal fats, fodder, fertilizer, coffee, cocoa, tea, tobacco, and the precious metals.

²⁶ Kurt Singer, "Some Fundamental Questions of Transition Economy," in *Internationale Korrespondenz*, Oct. 20, 1917.

²⁷ Prof. Eulenberg, *Welthandel*, June 8, 1917.

Most of these came from countries now hostile. Cotton and tobacco came from America, coffee from Brazil, wool from Australia and British South Africa, oil seeds from English and French West Africa. German industry, shipping, commerce, insurance, and banking depended upon German access to the world's sources of raw materials and to the markets for finished goods. By restricting the import into Germany of textile fibers, the Allies will ruin the clothing industry. In hampering the imports of oil seeds, they will ruin the candle, soap, fat, oil and varnish industries in Germany. The imported oil seed and cake furnished cattle fodder, the backbone of the German dairy industry. The English colonies furnished 70 per cent of Germany's copra and rape seed imports, 45 per cent of the poppy imports, 50 per cent of the ground-nut imports, and 30 per cent of the sesame imports.

The importance of raw materials in German foreign trade is indicated by the fact that the largest division of the newly-created Department of Economics is concerned with raw materials. Six of the nine sections of the Department are devoted thereto.²⁸ German economists propose that in the distribution of raw material, Germany be rationed on the basis of her pre-war consumption. Should Germany be unable to obtain the raw materials that her industry needs, she will be compelled to export men instead of goods.

(b) *Maintaining the Trade Balance*

While a depression in exchange rates automatically leads to increased costs and therefore the reduction of imports, Germans are going further and are advocating a strict economy in the use of imported material. Indeed, the importation of luxuries is to be prohibited.

"In every domain of raw-material requirements we must consider how far we can, in the period following the war, continue to dispense entirely or for the greatest part with supplies from

²⁸ *Vossische Zeitung*, Apr. 16, 1918; *Welthandel*, quoted in the *British Board of Trade Journal*, May 30, 1918.

abroad, and how and where we can provide for ourselves in time of peace without drawing upon our present enemies. Restriction of consumption is the principal remedy. The longer we restrict our consumption, the more will our orders be in demand. The more rapidly and greedily we seek to obtain foreign raw materials, the more will neutral and enemy countries exploit us. For our national welfare, it is of extraordinary importance that the restriction of consumption and the regulation of importation should be carried out until there is a slump in the international market, or until normal prices again make their appearance." ²

Germany will have to submit to privations, retain her meat, fat and bread cards so that she be not compelled to make too many concessions in return for raw materials.

To enable Germany to import the necessary raw materials, her economists advocate that those articles should be exported whose cost represents a minimum of raw material and which involve great skill and much labor. By exporting articles of quality rather than great bulk or semi-finished products, it may be possible to pay in commodities for the minimum of raw materials which is essential to German industry.

(c) *Financial Problems*

By no kind of manipulation, however, will it be possible to balance commodity imports by commodity exports. At the beginning, at least, there will be the dilemma that without imports of raw materials there can be no export of finished goods, and without exports of finished goods, it will be difficult to pay for raw materials. In addition, a considerable quantity of finished goods will be necessary in Germany to replenish depleted stores and to meet the minimum initial requirements of the German population. To meet this dilemma, Germans expect to raise loans abroad. The foreign countries that wish to sell to Germany will have to finance her. It will be impossible to get the machinery of foreign trade going without providing for a postponement of payment until stable conditions in industry are restored. Ger-

² Dr. Wilhelm Dyes, *Deutsche Politik*, June 22, 1917.

mans expect to draw on the credits that were outstanding at the beginning of the war, the payments on which were suspended.³⁰ The Reichsbank has held conferences with the representatives of a number of industries to agree upon the means of payment for imports, and on the pro-rating of imported goods to the firms in particular industries.

An anonymous proposal was put forward in the *Deutsche Revue* "for an issue of international bonds equal to the amount of the entire annual international trade before the war, about 150,000,000,000 marks. For example, if America before the war sent Germany goods valued at 3,000,000,000 marks, it would be obliged to accept treasury bonds to this amount from Germany. England, whose exports to Germany amounted to about 1,000,000,000 marks, would be required to receive a like amount of international bonds. On the other hand, Germany would have to accept English and American treasury bonds equal to the total of their imports delivered during the pre-war year. The bonds would be redeemable within ten years, so that the payments for imports would be distributed over a considerable period and thus impose no excessive burden. The bonds would be sent to the Central Note banks in the various countries, the Federal Reserve Bank in America, the Bank of England in London, and the Bank of France in Paris. The exporters would then be paid by these banks."^{30a} This scheme, like the analogous one proposed in England, is based on further inflation. That is, the Central Bank will have the right to issue money against international bonds. One of the difficulties is that the issuing authority, in this case international, has not the taxing power.

(iii) *Plans for the Regulation of Trade*

(a) *Import Monopolies*

The almost insuperable problems connected with the resumption of foreign trade, has led Germany, in accordance with her natural political bent, to turn to Government regulation. The

³⁰ *Frankfurter Zeitung*, Dec. 28, 1917.

^{30a} *Welthandel*, July 5, 1918.

problems of importing are not the problems of any single merchant, but of the entire nation. National problems will be handled in a national way. The price reductions obtained by Germany before the war in importing her copper, for instance, on a national scale, undoubtedly lent an added prestige to the wartime practice of state control of German economic life.

The scope, the organization, the aims, and the results of maintaining central offices for raw materials, "Rohstoffzentrale," or "Einfuhrmonopole," have been discussed at length.³¹ A Government monopoly of the importation and exportation of coal, potash, nitrates, aluminum, wheat, ores, petroleum, oil seeds, textile fiber, grains, and other commodities, would be established. The Central Offices for raw materials would be self-administrative corporations, companies of limited liability, created out of existing organizations in the various lines of trade and industry. A Government official would participate in the direction of the Central Office. Associations as well as manufacturers might become members. If voluntary combination should fail, the Government might apply some form of coercion. These organizations would offer the same advantages to the industries as syndicates and cartels formed voluntarily. The number of members taking part would have to change from time to time. New concerns would be admitted so that the growth of the industry would not be checked. The aim of the offices would be to stabilize industry by eliminating over-production and too severe competition. It would not be the intention to displace the economic interest of the individual. The activity of the Government monopoly would include a control over production and commerce, and the elimination of waste. It would take over the accumulation of surplus stores from the Government and protect and develop the manufacture of substitutes which is already established. It would protect German consumers against exorbitant prices of foreign producers. It would promote the exportation of German manufactures, and, if necessary, use German monopoly commodities, such

³¹ Dr. Carl Keller, in *Plutus*, Jan. 16, 1918; Dr. Brandt, President of the Duesseldorf Chamber of Commerce, in *Kölnische Zeitung*, Dec. 6, 1917.

as coal and potash, in promoting exports to countries which needed these goods. The end in view would be to forge a sharper weapon for Germany's commercial warfare and to make up for the vast burdens of unavoidable taxation after the war by means of efficient production and the specialization of industry. Germany's position would be strengthened by unified purchasing, by lessening her dependence on foreign countries, by economizing in supplies, and by developing the home production of substitute raw materials as aluminum for copper, air nitrates for Chilean nitre, nettles for cotton, etc. The Central Offices would guarantee to German manufacturers steady prices of raw materials. These Government monopolies would assume part of the financial burden of the Government, by paying a tax on raw materials. This tax would be an incentive to lower the cost of production. The annual budget of Germany would be increased by 8,000,000,000 to 10,000,000,000 marks, a sum which cannot be raised by the usual methods of taxation. Any of these aims in itself does not require the existence of a central monopoly. However, the achievement of all of them would be facilitated by such organizations.

The scheme of a Central Office for raw materials was only part of a larger scheme of Government regulation of commerce and industry. The full program for the transition from war to peace, is as follows:

(1) The entire German cargo space to be put under Government control.

(2) The imports of raw material to be rationed on the basis of the last pre-war year. Import embargoes to be placed on certain goods.

(3) Private individuals not to be allowed to dispose of their credits abroad, or of any property which they might use to obtain credit abroad.

(4) The export of raw materials and manufactured goods to be controlled.

(5) The distribution of imported goods to be undertaken by special organizations working under state supervision.²²

²² From *Plutus*, Mar. 28, 1917.

(b) Opposition to Government Control

While Government officials and economists favor the extension of the authority of the state, merchants are not in sympathy with such proposals. The executive of the Economic Committee of German Peace Industries ^{22a} adopted the following resolutions:

"(1) That no new restrictions be imposed on business conditions at home, and that all existing restrictions be removed.

"(2) That the offices for the distribution of raw materials, recognized to be necessary during the war, be abolished as soon as possible, and that it be left to the intelligence and skill of the industrial classes to insure the resumption of former business connections, and to strike out for new undertakings.

"(3) That on the conclusion of peace with the present enemies of Germany an open field should be given and the supply of all necessary raw materials to industry and trades be facilitated by means of commercial treaties.

"(4) That manufacturers and merchants receive better support from the representatives of Germany in foreign countries, that the number of consulates be increased and be filled with officials who have a knowledge of economics, and are qualified to safeguard the interests of German trade, and can coöperate with the business organizations at home."

Much the same spirit underlies the report of the Hamburg Chamber of Commerce, which called definitely for the abolition, as soon as peace is declared, of all Government regulations controlling commerce, which have been introduced during the war.²³

"The proposed government export monopoly, the Zentral-Ausfuhr-Gesellschaft, is not viewed with favor in view of the experience during the war with the import monopoly, the Zentral-Einfuhr-Gesellschaft. It is the best hated of all the war organizations. Its management was uneconomical and lacking in vision. It paid too much for its foreign purchases. Its system of distribution was impractical so that large quantities of goods went to waste. Finally it caused further increases in price."²⁴

^{22a} This body, founded in 1917, met at Leipzig.

²³ *Hamburger Nachrichten*, Dec. 31, 1917.

²⁴ *Welthandel*, Nov. 29, 1918.

There are other practical objections to the regulation of industry from a Central Office. To ration imports requires a rationing of related domestic products which are used in connection with imported raw materials. Then again, the rationing of raw materials will require the rationing of semi-finished products and so on throughout the process of production. And if finished goods are produced under restrictions, with the inevitable delay consequent, exports will be hampered.

With respect to the centralization of foreign bills, some firms with connections abroad might be able to obtain credit more easily than a central bureau would. Besides, customers abroad who want German goods might be willing to furnish their own credit. Similarly, while Government rationing may better utilize the limited German tonnage that is available, high competitive rates paid by private shippers may attract foreign tonnage.

(c) *The Moderate View*

A considerable body of opinion in Germany realizes the need for Government control and also the truth that underlies the opposition to it.

"Germany has had enough, and to spare, of bureaucracy and officialdom during the war. However, it will be impossible to do away with official control in many fields. The Government offices concerned with the transition to peace should not be a bureaucratic organization, but a body of experts, who with sure hand will efficiently guide German industry to a peace basis."^{83b} The same attitude was evident at a meeting of representatives of the Reichstag, of commercial and financial circles, held at the new Department of Economics. It was agreed that efforts would have to be made to maintain the greatest possible freedom of activity for German commerce, but at the same time it would have to be limited during the period of transition by a restriction of imports to the indispensable minimum, and foreign countries would have to be prevented from drawing upon the credit and capital of Germany.⁸⁴ The views of the moderates on the sub-

^{83b} *Welthandel*, Feb. 15, 1918.

⁸⁴ *Reichsanzeiger*, Feb. 11, 1918.

ject of Government control may be summed up in the program of Max Haller, director of the Siemens-Schuckert Electrical Works, Berlin:

"(1) Subject to regulation, the available German tonnage should be put under Government control up to a limited percentage.

"(2) Preference in importation should be given to those goods which are to be made up into exports, and to those which have already been paid for before the war.

"(3) Credits should be centralized in the Foreign Bill Bureau so as to avoid sudden fluctuations of exchange. However, the hands of commerce must not be tied and in case of need credits must be put at the disposal of the owner by the central bureau.

"(4) Goods that are imported in neutral vessels or in the unrestricted German cargo space must be at the free disposal of the purchaser.

"(5) The importation or manufacture of luxuries should be prohibited. For home consumption substitutes should be encouraged."

Professor Von Schulze-Gavernitz, although he sits as a radical deputy in the Reichstag, believes that the "principle upon which reconstruction should be based is a judicious combination of state socialism and private enterprise. Things will not be able to go on without state monopoly. Small traders coming back from the front will be unable to resume their business without some assignment of raw material. The small trader must receive his share by the intervention of the state. So long as our children are without shoes, lounge chairs must not be covered with leather. So long as our housewives have no dress materials and sewing cotton, our cargo space must not be taken up with articles of luxury. Cargo space is needed, but a shipping syndicate must not be allowed to impose excessive freights and exploit the needy. Some state authority must exist. But we cannot agree with the Socialists, who would perpetuate what must be a transitory régime."

²⁸ *Plutus*, March 28, 1917.

²⁹ Quotation from a debate in the Reichstag on the newly created Department of Economics, in the *New York Journal of Commerce*, June 7, 1918.

(iv) Trade Promotion Policies

Germany has been cut off from the world for four years. Its most pressing problems to-day are concerned with the resumption of trade relations. However, the question of promoting foreign commerce, which was pushed so energetically and so scientifically before the war, has received a great deal of attention. A trade propaganda is to be launched. Information about foreign countries is to be made more accessible and more widespread. German influence is to be extended. Chambers of commerce are to be opened abroad. The official support of trade is to be strengthened.

(a) Societies for Trade Information and Trade Propaganda

The means of collecting foreign-trade information are various. The German overseas service is a society with a capitalization of 5,000,000 marks. The objects of the "Ueberseedienst" is to create an information service in foreign countries with regard to Germany and in Germany with regard to foreign countries. The service will be concerned with the aspects of politics and economics that are intimately connected with commerce. A bulletin written in five languages will convey information about Germany to the foreigners. Furthermore, the society will coöperate with the German Photographic Society, founded in 1916, to disseminate views of Germany that may interest the foreigner. Moving pictures are to be used in this connection.⁸⁷

Another method of spreading information about Germany is by the formation of an organization somewhat similar to the Lloyds, called Transozeans, G. m. b. H., and another called Seediens. Again, several industries have arranged to hold exhibitions of German goods abroad, so as to acquaint the foreign public with the products of German arts and to develop a market for German goods. The Germans have also been very active in publishing foreign trade papers, of which there are about sixty

⁸⁷ *España Economica y Financiera*, Madrid, April 13, 1918, quoted in *Commerce Reports*, June 19, 1918.

private and ten official publications. The Deutsche Export Revue plans to extend its activity and after the war will appear in a dozen languages.

As an additional means of spreading German influence, the educational budgets have been increased, despite the expenses of the war. Technical education in the modern languages forms the basis of the change. Whereas before the war only French and English were obligatory in the German schools, during the war Spanish, Danish, Swedish, and Norwegian, and even the Oriental tongues, have been added to the list of languages whose teaching is to be actively fostered. It is planned furthermore to employ in the German foreign trade those Germans who were residents of foreign countries, to work up trade in neutral or enemy countries. The two organizations which aimed to keep alive the German spirit among Germans residing abroad are the Verein Deutscher Staatsangehörige im Auslande, and the Verein für das Deutschtum im Auslande. Associations of this character sometimes confine their aims to specific countries, as the society for the Creation of German Technical Schools in China, and the Society of Booksellers for the Spreading of German Means of Instruction in China. Again, there are special societies for the study of foreign countries, such as the Society for the Study of Russia, the Central Association of Trade Geography and for the Fostering of German Interests Abroad. There is also a Society for the Fostering of the Spiritual Relations of Germany with Foreign Countries. There are also various trade institutions such as the German South American Institute and the Institute for Ocean Commerce and World Economics.

(b) The Central Institute for Foreign Trade

To avoid duplication of effort in the promotion of foreign trade the consolidation into one association with subsidiaries of all bodies that have this common end has been recommended. A commission representative of all the organizations would direct the Central Institute for Foreign Trade, the Auslandsamt. The institute would have a central office, with a library and exhibition

room, and with organized advisory and executive bodies represented on its committees. It might even form branches abroad to guide the German manufacturer as to the needs of the foreign consumer. The activities of the Auslandamt would be (1) to compile the laws and regulations regarding commerce, industry, mining, shipping, taxes, duties, patents, samples, and trademarks; commercial treaties; foreign official and commercial financial statements; statistics of trade and commerce; a register of purchases and sales; a list of foreign attorneys and a bibliography of commerce; (2) to issue information regarding tariffs and duties; means of communication and rates; education and technical papers; (3) to establish information bureaus; technical institutes of commerce; a warehouse for samples and for the organization of exhibits. The proposed association would also establish in foreign countries schools, German associations, educational institutes, and connections with various foreign associations, and would maintain a card index of Germans living abroad.

(c) *Export Associations and Syndicates*

Companies have also been formed to develop foreign trade. Such is the Foreign Trade Company, Limited, with central offices in Hamburg, and a capital of \$25,000,000. The object is to develop export industries, shipping connections, and financial undertakings abroad. In addition to the Foreign Trade Company, Limited, there was also formed an Ausfuhr Gesellschaft m. b. H., which is an amalgamation of syndicates to promote exports during the transition period.³⁸

In addition, the various branches of industry are forming syndicates for the development of foreign trade. This has the support of the Government. The Association of German Ironmasters is typical of this group.³⁹

³⁸ *British Board of Trade Journal*, July 4, 1918; *New York Times*, Dec. 1, 1917.

³⁹ *Welthandel*, May 31, 1918.

(d) Chambers of Commerce Abroad

In addition to the policies mentioned above, German merchants are advocating the use on a more extended scale of chambers of commerce.

"Well organized chambers of commerce benefit both importers and exporters. A consulate, no matter how efficient, is unable to accomplish the same result. It can never get rid of its official character. Whoever deals with it deals with the state itself. It is precisely this officialdom that the business man desires to avoid. The individual agent cannot take the place of the chamber of commerce. He cannot view matters objectively. He represents the individual trader and not trade as a whole. Accordingly, the alternative is a combination on a coöperative basis of business men. Great Britain founded the first chamber of commerce abroad in 1872, at Paris. Since 1883, France has maintained about thirty chambers abroad. They were established by Government support, especially in the eighties. In 1914, Italy had 21 chambers abroad. The United States established a chamber at Paris in 1898, in Brussels in 1899, and in Berlin in 1903. Sweden and the New Poland both contemplate establishment of chambers of commerce in Switzerland. German chambers of commerce abroad always failed, because they were merely advisory councils to the consulate. The German chamber at Brussels, founded in 1894, came to an inglorious end in 1905. The Bucharest chamber, founded in 1902, survived only three years. The reason for its failure was that it had differences with the consulate."^{*}

Several chambers of commerce in East Germany combined to establish a joint chamber of commerce in Poland. This represented 84 trade bodies, and was to aid in the introduction of German wares through exhibitions in which particular attention was to be given to the needs and tastes of the Polish people.

(e) The Commercial Intelligence Service

In imitation of the reform of the British commercial intelligence service, Germany made preparations for the improvement and development of her own service. This work is to be carried

^{*} *Board of Trade Journal*, June 13, 1918.

on by the new Ministry of Economics. It is the general hope in Germany that there will be the same "comprehensive reform of foreign commercial representation as was carried through by the United Kingdom." Consular officers are to be drawn exclusively from her own citizens. One paper, the *Weser Zeitung*, seriously suggests that "many efficient business men, who have been ruined by the war, would be glad to take up work in the consular service. Their business experience and thorough knowledge of commerce particularly fit them for this service."

C. The German Attitude on a Policy of Exclusion by the Allies

All classes of German opinion are opposed to any form of economic war. Indeed, they go much further and oppose not only preferential agreements between the Allied powers, but also preferences between the mother country and the colonies. They fear the effects on German industry of the execution of the Allied policy. To support their view they present political and economic reasons why these policies should not, indeed cannot, be put into effect. But in addition to opposing in the press and the forum an economic war, Germans have developed a series of counter-measures, with which they expect to resist the Allies in the threatened economic war.

(i) The Opposition to Economic Warfare

(a) The Fear of Its Disastrous Effects

The leading merchants of Germany have stated time and again that Germany's position in international commerce depends upon the supplies of raw materials obtained from the Allied countries. The basis of their economic life lies in the control of other powers. They admit that the withholding of the necessary raw materials from Germany would deal a deathblow to her industries. Germany fears not only the resolutions of the Paris Conference, but even if these are unlikely to be realized, Germany still would have to reckon with the ill will of her numerous ene-

mies who constituted before the war the suppliers of her raw materials and the buyers of her finished products. "Behind every exchange of goods there are intangible considerations. No treaty of peace can guard Germany against the rejection of her wares, even without any breach of the letter of the treaty. The cultivation of the world's good will is essential for reconstruction."⁴¹

Cotton and tobacco came from America, coffee from Brazil, wool from Australia, and British South Africa, and oil seeds from British West Africa. The war was won through the Allied control of raw materials. In a similar way, the after-war commercial competition will be disastrous to Germany if she has not free access to the necessary raw materials. She will be unable to support her population and may have to send her surplus population out of the country.⁴²

President Fabarius, of the Bremen Chamber of Commerce, said "that the conclusion of a peace, especially as regards England, which contains a possibility of the prosecution by the Entente of an economic war after the war, would mean the ruin of Germany."⁴³ Similar sentiments were expressed by Karl Helfferich, in the *Neue Wiener Tageblatt*:

"We should be most stupid if at the conclusion of peace we let our enemies put around our necks the silken rope of economic war."

"The spirit of economic nationalism which is abroad in Europe, especially in England, is particularly grave in view of the universal scarcity of raw materials."⁴⁴

But not only the withholding of raw materials or their distribution under restrictions is a source of concern. More than that, the Germans fear that the Entente countries, and particu-

⁴¹ Von Schulze-Gaevernitz, in the Reichstag debate.

⁴² *Welthandel*, Feb. 15, 1918.

⁴³ *Hamburger Nachrichten*, quoted in *New York Journal of Commerce*, Feb. 8, 1918.

⁴⁴ Prof. Von Schulze-Gaevernitz, in an address before the Reichstag, quoted in *New York Times*, May 14, 1918; *Journal of Commerce*, June 7, 1918.

larly Great Britain, will control prices to their own advantage, and to Germany's hurt.

The much vaunted German monopoly or semi-monopoly industries, as potash, zinc, sugar, dye, and potatoes, are inadequate, it is admitted, to compel the granting of concessions to Germany. Her citizens realize that with reference to all of these Great Britain has either developed home sources of supply during the war, or else will be able to import indirectly, through other countries, the commodities in which Germany specializes. Furthermore, even as to potash, should the Alsace output be insufficient, Germany could not prevent Great Britain's getting the German product through Holland or Denmark.⁴⁵

However, despite the effect on Germany of the restriction of the supply of raw materials by the Allies, the opinion is expressed from time to time that there is no danger of any economic war. For instance, a writer in the *Frankfurter Zeitung* points out that tariffs will for a long time to come be of comparatively little importance, because of the diminished productivity of the nations and the exhaustion of the supply of raw materials. For this reason, it would be necessary to secure definite quantities of raw materials by the terms of the treaty as well as to secure most favored nation treatment. The same thought is expressed by Von Schulze-Gaevernitz, who says, "I do not attach serious importance to the threatened economic war after the war. The hunger for goods will overcome every other consideration. Goods will be bought wherever they are to be found." This opinion, however, is by no means universal. Herr Von Stein, Secretary of the Department of Economics, stated,

"We must not treat this matter too lightly. We must reckon with the possibility, even the large probability, that a war in the economic field will continue without regard to the treaties of peace. Our enemies will not again live in peace and friendship with us. They have threatened us with economic war. They will want to carry it out."

* Dr. W. Goetz, *Vossische Zeitung*, quoted in *Journal of Commerce*, Oct. 31, 1918.

(b) *German Skepticism about Economic War*(1) *Economic Difficulties*

German economists have presented many of the difficulties, both political and economic, of a "war after the war." For instance, one of them points out that "not the downfall or adversity, but the rise and progress of its neighboring powers, is necessary to any nation's welfare. It is an extremely primitive and naïve notion that a nation benefits economically by destroying the commerce of another. The past generation, which lived in a period of increasing wealth, has proved the opposite to be true. The war itself has completely refuted the ideas of the mercantile era in economics. Not from the repression of Germany, but indeed from its expansion did the other nations derive their greatest benefit. The lessons of the past should be a guide to the future." ⁴⁸

The difficulty of cutting out Germany, either as a buyer or a seller, is pointed out repeatedly:

"It will continue to be necessary for English colonies to export their products, if only to meet the interest on their indebtedness. Since there is a limit to the absorbing powers of Germany's opponents, the excess of the export of raw materials would again find its way to Germany. Then, again, the need for goods for the first few years after the war would be so great that people would be glad to get them in any way and from any source possible. During this interval, the national hatred of Germany would probably have cooled down considerably. Further, Germany would be needed as a producer. The producing capacity of the Allied countries is not unlimited. They would be unable to manufacture articles which they hitherto procured from Germany without neglecting the special lines in which they excel."⁴⁹

"England cannot take the place of Germany as a producer of specialties, and of certain classes of goods. Nor can England permanently displace Germany as a buyer of colonial raw materials. The English colonies cannot do without us either as buyer or seller. Furthermore, it is doubtful whether the English producers can do without Germany, their best customer in the years

⁴⁸ Prof. Franz Eulenberg, in the *Berliner Tageblatt*, Apr. 2, 1918.

⁴⁹ Franz Eulenberg, *Welthandel*, June 8, 1918.

of peace. Germany, on the other hand, can exclude England as a broker between Germany and the British colonies if England surrounds herself with a tariff wall. Before the war we were strong enough for England, and after the war our prospects will not be worse if England does violence to herself.”⁴⁸

(2) *Political Difficulties*

In addition to the economic difficulties, there are equally serious political obstacles to the realization of a program of economic war. So radical a departure from the traditional policy of free trade in Great Britain is bound to cause political dissension within the Empire. The commercial classes whose prosperity was built up on the pre-war basis of free trade will oppose any change sharply. Then again, the growth in power of the Labor Party will constitute a new influence opposed to economic war and to increases in the cost of living, which must result from a tariff. Though the ideas of Chamberlain favoring a closer union between Great Britain and her colonies have been fostered by the war, yet the effect of the radical labor movements in eastern Europe is to strengthen the Laborites and Liberals who favor a policy of conciliation of the enemy and who are opposed to any war after the war.⁴⁹

But the political difficulties are not only internal. Indeed, the international political difficulties constitute a far graver obstacle to a scheme of preferences. The Allies would be alienated by any plan of imperial preference, and the neutrals would protest against a policy of inter-Allied preference.

“Every all-British customs union is fraught with danger, for it clashes with the interests not only of neutrals, but also of Britain’s Allies. It is true that neutrals are promised preferential terms as regards Germany. But from the standpoint of customs tariffs, they will always be at a disadvantage as compared with England, on account of her vast overseas dominions. Neutrals will also be at a disadvantage as compared with the British Colonies on ac-

⁴⁸ *Cologne Gazette*, quoted in *Journal of Commerce*, Oct. 14, 1918.

⁴⁹ Max Schippel, in the *Sozialistische Monatshefte*; Von Schulze-Gaevernitz’s address in the Reichstag.

count of the enormous demand of the British market. Think what this means, for example, to the Argentine, with her exports of wool, meat and grain, or to Holland, with her exports of colonial produce and agricultural and industrial home products. The same objection holds good to countries which are allied with England. It holds good for the United States. Not only in the Canadian, but also in the Australian and South African markets the United States is an industrial competitor of Great Britain. Furthermore, America is a rival of Canada and Australia in the British and colonial markets with regard to agriculture, forestry and fisheries. The United States could retaliate in restricting the British competition in the Philippines and other insular possessions. Is the United States under such conditions likely to view with indifference the preference given to British industries and to the produce of British colonies even if some slight differential treatment as against Germany is afforded the United States by placing higher duties on German goods intended for the British home or colonial market? The same objection holds for Britain's allies on the continent of Europe, France, Italy, and Russia. No treaty of questionable profit to them would ever compensate these countries for the actual losses incurred."⁸⁸

From many points of view the most serious objection that Germans see to the scheme of imperial preference is that it would "undermine the security of Britain's all too extensive possessions and weaken her position as a world power." Great Britain's position in international commerce was built up on economic free trade and political liberalism. The equal access of all nations to the markets of Great Britain and of her colonies virtually constituted Great Britain the trustee rather than the owner of her possessions. As trustee for the world, in charge of the dominions and crown colonies, Great Britain's rights rested on an unimpeachable basis. As a monopolist of the opportunities and privileges of her far-flung possessions, Britain loses all the strength of her pre-war position. Indeed, she invites an anti-British alliance which must ultimately include all the non-British world. Commercial discrimination is a boomerang. The pre-war experience of Great Britain vindicates a policy of economic equality and political liberality. To embark upon a policy of

⁸⁸ *Welthandel*, Aug. 23, 1918.

discrimination is to sail into a sea of trouble, which may have ill results for the safety and integrity of the British Empire.

(ii) *German Measures to Combat Economic War of the Allies*

Germany, however, has not contented herself with proving the impossibility or pointing out the difficulty of an economic war. With reference to imperial preferential tariffs, the *Vossische Zeitung* says:

"This means a victory of imperialism in the domain of economics, and renders an economic war unavoidable. While this decision has been arrived at before the Central European negotiations have assumed definite shape, the German government has already taken the plan for economic war into account, and has forged the necessary weapon to counteract it."

The measures contemplated are both economic and political, and cover internal as well as external policies.

(a) *Internal Policies*

The internal policies to combat the Allied economic warfare are, in the economic field, the development of substitutes, and, in the political field, the democratization of Germany. In order to hasten the restoration of stable conditions in commerce, Germany will strive to become as independent as possible of overseas transportation. She looks forward to increased trade on the continent of Europe, particularly toward the east. Furthermore, the development as far as possible of substitutes to take the place of overseas imports coupled with the strictest economy in the distribution and consumption of the necessary minimum of imports, will, it is expected, aid in breaking down the spirit of economic warfare against Germany.

"If England and her colonies were made apprehensive that Germany would render herself independent of their raw materials, they would soon recognize the foolish and suicidal nature of their commercial policy. In the long run they would not be able to

dispense with the Germans as customers, however much they might try to delude themselves as to this fact."²¹

The value of democratic institutions in Germany as a means of disarming the proponents of economic warfare, has been frequently expressed.

"Nothing has so estranged the world from us as our former system of government. Every business man who has lived abroad has learned for himself that in this system of government lie rooted the want of sympathy and the mistrust which have confronted the German trader everywhere. There can be no doubt but that the political readjustment now in progress possesses great economic importance. It is bound to make it easier for the German trader and for German goods to get back again into the world."²²

(b) *External Policies—Economic and Political*

The external policies that Germany plans as a counter measure to the Allied scheme for an economic war are also economic and political. The economic policies include the utilization of the so-called compensation industries, trading under a neutral disguise, the fostering of trade relations with neutrals, and the "Drang nach Osten." The political policies include the advocacy of the open door everywhere, the abolition of dumping and the abandonment of the Mittel-Europa plan, the development of new alliances with non-British countries, and the universal application of most favored nation treaties.

(1) *"Compensation" Industries*

During the war Germany was able to coerce the neighboring neutrals by means of withholding coal, iron, chemicals, and other commodities over which Germany had a natural or a technical monopoly. Because of her success in this direction during the war Germany expects to utilize as a means of reprisal those industries which in times of peace might be considered "compen-

²¹ G. Munch, *Vossische Zeitung*, Feb. 17, 1918.

²² Prof. Von Schulze-Gaevernitz, *id.*

sation" industries, like the manufacture of dyestuffs, chemicals, high-grade steels, and electrical goods. To increase the effectiveness of this means of retaliation "manufacturing secrets must be guarded, and skilled employees prevented from emigrating. Betrayal of trade secrets should be made a punishable crime. Foreigners should not be admitted to German colleges."⁵³

"That Germany has the means of forcing her opponents to grant her equality of economic rights is obvious, when it is remembered that America requires German potash for her agriculture, German chemicals and dyes, medicines, orthopedic and surgical instruments, Solingen steel, etc."⁵⁴

Many Germans, however, have attempted to disillusion their countrymen as to the efficacy of the German "compensation" industries, or monopoly commodities. With the exception of potash, these commodities may be produced in any other country where the skill and craft knowledge were developed. During the war this was actually done and the much vaunted German specialties, like dyestuffs, optical glass, chemicals, high-grade steels, and electrical goods, are now being produced in volume exceeding the home requirements in Great Britain and the United States. The economists who have retained a true perspective repeatedly advise their fellow Germans that their "compensation" industries are broken reeds, unsuited for the economic coercion of the non-Germanic powers.

(2) *Trading under a Neutral Disguise*

Realizing that the military clique has left a legacy of hatred of the German, the mercantile classes have conceived the plan of using neutral intermediaries as their sales agents. There seems to be no fear of the open trade war outlined at the Paris Economic Conference. There is, however, a fear of a silent and unofficial hostility. The hatred of Germany will restrict German foreign trade. Furthermore, the English and French have

⁵³ Adolf Vonberg, *Wirtschaftszeitung der Zentralmächte*, Aug. 31, 1917.

⁵⁴ *Welthandel*, June 1, 1918.

during the war adopted German organization and German methods of production.

"Owing to the hostility against German goods, German trade will have to go through neutral hands, thus increasing its cost and the danger of its imitation by neutrals. No moral scruples should deter us. And we should not hesitate to apply any method until the market will reaccustom itself to German products. It is a duty of every exporter to renew his connection with neutrals and remove from his goods all signs of nationality. Since the neutrals must be agents, they should be well treated now as well as after the war."⁵⁵

A report of a Committee on Trading with the Enemy, appointed by the British Board of Trade, gave as its finding the fact that foreign traders have habitually substituted British names for their own, for the purpose of misleading their customers into the belief that they were dealing with British principals instead of aliens. The free choice of titles which joint stock companies enjoyed also enabled foreign traders to conceal their nationality and to acquire whatever advantage may accrue to a business from appearing to be British.⁵⁶ Not only before the war were national names and emblems simulated, but during the war it was said that Switzerland was used as a base for distributing German goods in Allied countries. The device was either to mark the goods with imitation British and French trademarks, or else to establish fictitious Swiss companies which would act as a blind for the distribution of German goods. Then again, neutral factories were bought up by German interests and the real ownership concealed.⁵⁷

The neutrals have not remained passive to this invasion of their rights. To counteract these schemes Swiss merchants have formed the S. P. E. S., Syndicat pour L'Exportation Suisse, the object of which is to promote the exportation of genuine Swiss products. The national mark, "S. P. E. S.," will indicate that

⁵⁵ Adolf Vonberg, *Wirtschaftszeitung der Zentralmaechte*, Aug. 31, 1917.

⁵⁶ *Journal of Commerce*, Aug. 17, 1918.

⁵⁷ *New York Times*, April 30 and May 13, 1918.

the goods so marked are products of the Swiss soil or of Swiss industry. Membership in the S. P. E. S. is confined to native born citizens and to those who have been naturalized at least ten years.⁵⁸ Denmark and Sweden have likewise taken steps to thwart German efforts to exploit neutral good will for the sale of German goods. Sweden has a law which requires all enterprises in Sweden to be managed by Swedish officers.

(3) *Fostering Trade with Neutrals*

Realizing the difficulty of promptly reestablishing trade relations with the Entente countries, Germany takes philosophic solace in the fact that "extensive foreign trade is only a means to an end and not necessarily a sign of flourishing condition. We must adopt the attitude that our interior economic life is so strong that we can begin the work of reconstruction without artificial help."⁵⁹ Furthermore, the less hostile markets in neutral countries are to be cultivated more assiduously than ever.

"That Germany should be confined to her home markets is absolutely out of the question. What paths for her foreign trade will be first available after the war? It is feared that our commercial relations with England and France and their colonies will be for a long time confronted with difficulties. To compensate for the restriction of trade with them, Germany must turn to the neutral countries, particularly South and Central America. There can be no doubt that these fields are most fruitful for our export trade. They are in a position to supply us with nearly all the raw materials which we derive from North America. We can get saltpeter, india rubber, linseed oil, grain, wool, and meat. If the British colonies refuse to supply Germany with wool, it can be obtained from the Argentine. Indian jute can be replaced by nettles. British rubber will give way to the Brazilian product. The neutrals will be not only a source of raw materials, but a market for our products. After the return of normal conditions our products will be sold at home at comparatively low prices. Conditions in neutral foreign countries, especially overseas, are different. They have received high prices for their goods, and

⁵⁸ *Commerce Reports*, July 12, 1918. Article 274 of the Treaty of Peace with Germany prohibits the use of deceptive markings.

⁵⁹ Prof. Paul Koch, *Duesseldorfer General Anseiger*, Dec. 21, 1917.

after the conclusion of peace they will enjoy a great demand for their products upon the part of the former belligerents. Exports of neutrals will increase so that they will be able to import more than during the war. Furthermore, during the war imports into South America were restricted. These countries have an accumulated demand and will be in a position to satisfy it. Therefore, we can expect to receive from them better prices than we can obtain at home. A large export trade with neutral countries will be a question that will vitally affect our national welfare."^a

"Before the war Germany's exports to the northern neutrals exceeded her imports, whereas in the case of England the reverse was true. England has been their best provision market during the war. In the future the industrialization of Sweden will bring her into competition with Germany and spoil her markets there.

"Purchasing power in the neutral countries has increased, as indicated by the profits of shipowners and merchants and banks and by the war taxes. Industry will develop further but they will still depend on Germany for much. To buy they will have to place their capital at our disposal. We shall need their credit in our economic reconstruction. We must buy more foodstuffs from them after the war. These went to England chiefly because of her open markets. We must alter our protective agricultural tariff. To export more to them we must buy from them."^a

(4) *The "Drang nach Osten"*

Even before the war, there was an influential element in German commercial circles that strove to align Germany with the eastern powers. Indeed, it was out of this tendency that the Mittel-Europa scheme arose, and that the alliance with Turkey was formed. The liberal elements strove for an understanding with the western powers. The military group worked for a union with the eastern. The "drang nach Osten," or the pressure or urge toward the east, assumed the form of the four-power group that constituted the Teutonic alliance. During the war, tentative plans for continued action along these lines were formed. The German-Austro-Hungarian Economic Union in Germany, and the Austro-German Economic Union in Austria, were outgrowths of the same tendency in planning for after-war

^a Deutsche Kultur, *Die Welt*, Nov. 2, 1917.

^a *Wirtschaftszeitung der Zentralmaechte*, August 31, 1917.

conditions. True, the revolution in Russia and the collapse of the Teutonic alliance have upset much of the physical basis for this movement. However, certain geographical considerations lend strength to plans for an extensive community of interests between Germany and Russia. In 1912, Germany did one-tenth of her total foreign trade with Russia, importing barley, \$75,000,000; pine timber, \$46,000,000; wheat, \$23,000,000; seeds, \$21,000,000; metallic ores, \$20,000,000; eggs, \$16,000,000; flax, \$15,000,000; butter, \$13,000,000; and oats, \$13,000,000. The exports of German goods to Russia for the same year included cloths, \$6,000,000; leather, \$4,000,000; automobiles, \$3,000,000; electric lamps, \$2,000,000; motors, \$2,000,000; metal working machines, \$2,000,000; glazed leather, \$2,000,000; house and kitchen utensils, \$2,000,000; sewing machines and parts, \$2,000,000; iron plows, \$2,000,000. A densely populated and highly industrialized Germany bordering on a more sparsely settled and agricultural Russia must, in the nature of the case, be tied into an intimate economic relationship with her. Exclusion from the markets of the west will undoubtedly reenforce the natural tendency for a close economic union. Furthermore, disorganized Russia is no longer in the Entente and would be entirely unsympathetic to any scheme of discrimination against an enemy of the Entente. If we add to this the natural sympathy that would prevail between two countries in economic disorder, or, two countries being restored under radical political and social conditions, the post-war significance of the old "Drang nach Osten" movement becomes apparent. In view of an alliance between two countries, Germany and Russia, both considering themselves victims of Allied power, the economic boycott, inter-Allied preference, or inter-imperial preference lose their terrors. Indeed, these measures may hasten the exclusive exploitation of Russia by Germany, or even a socialistic development of the natural resources of both countries in the interests of the masses.

To foster trade with the Near Eastern countries, Germany founded the East European Institute in Breslau for the purpose

of making a more thorough study of Germany's eastern neighbors in preparation for closer economic relationship.⁶²

(5) *A Liberal and Open Tariff Policy*

Whether liberalism is a genuine attempt to give expression to the will of the German people, or whether it is merely a commercial maneuver upon the part of Germany to align herself with the political tendencies dominant elsewhere, the fact remains that German economists realize that corresponding to democratization internally a liberal trade policy is necessary. As Schulze-Gaevernitz sees it, "If Germany seeks equality of treatment, she must abandon the practice of dumping which was so bitterly resented abroad." Furthermore, Germany stands firmly opposed to the proposed trade discrimination. One writer calls upon Germany to abandon the Central Europe idea and stand out as the opponent of England by championing the policy of the open door, now an anti-English principle. In this attitude she will undoubtedly have the support of the neutral states and others who under the plan of Imperial or inter-Allied preference would be less favored than British traders themselves. The advocacy by Germany of the open-door principle is conditioned primarily upon the rejection of any scheme for trade preference between Germany and any other country.⁶³

Two main principles proposed by Germany for dealing with the question of commercial policy after the war are:

"1. That the most important and essential agreements contained in the text of all the existing commercial treaties should be embodied in a homogeneous international commercial treaty, which should either be included in the peace terms or concluded concurrently with them.

"2. That in regard to all points not included in the treaty, especially tariffs, the status quo before the war should be restored

⁶² *Journal of Commerce*, Oct. 29, 1918, quoting *Norddeutsche Allgemeine Zeitung* of Aug. 25, 1918.

⁶³ Max Schippel, *Sozialistische Monatshefte*, Aug., 1918; *Welthandel*, Aug. 23, 1918.

and declared binding for some years, in order that the various peoples may at their leisure be able to restore their business connections with their foreign customers under the conditions to which they were accustomed before the war, and prepare gradually those alterations in tariffs which changed conditions may have rendered necessary.⁶⁴

The attitude of official Germany was expressed by Von Schulze-Gaevernitz in the Reichstag, who thought that the only basis for the reestablishment of international commerce was the most-favored-nation clause interpreted to mean an absolute and unqualified equality of treatment of all the nations, or the rejection of the scheme of international discrimination or preference.

"The most important war aim, not only for Germany but for all nations interested in world economy, is an equal place in the sun for everybody. Germany should declare its readiness to organize an international authority that would be charged with securing the honest observance of the most favored nation rule. Our declaration in favor of such a plan will be supported by all those who are hostile to the policy of exclusion. However, if we pursue this policy then the triple tariff system goes by the board and with it the possibility of conciliating our allies by means of special preferences. The whole world must be told that Germany does not claim any trade preferences, and that all she seeks is equal rights for all nations and the maintenance of her position."⁶⁵

(6) *An Anti-British Alliance*

But a world-wide liberal trade policy is not the sole reliance for checking anti-German trade policy. Some writers hark back to the trite device which was revealed in all its treachery in the famous intercepted cable of Under-Secretary Zimmermann to Mexico and Japan. Bernhard Dernburg, writing in the *Berliner Tageblatt*, assumes that there is a tension between Great Britain and Japan over the Indian Ocean. He revives the yellow peril, first conjured up by the late All Highest War Lord. He says

⁶⁴ *Deutsche Aussenhandel*, June 20, 1917.

⁶⁵ *Op. cit.*

that while there are conflicting interests between the Mongols and the Anglo-Saxons, there is no such feeling between the Central European and the Far Eastern Powers. India and the Pacific Islands will be the commercial battleground between Anglo-Saxondom on both sides of the Atlantic, and the Yellow Empire. Therefore, Herr Dernburg proposes to improve Germany's economic position and bring the Entente to terms by throwing German prestige into a Mongolian anti-British alliance.⁶⁸

"Germany must make herself independent of British raw materials by forming a new coalition. She must ally herself with Japan and China, and give Japan a free hand in the Far East. She must support the political claims of Spain in order to get Spanish ores. She must enter into close political relations with Mexico and the South American countries. Germany's future policy will have to aim at securing an adequate supply of raw materials. This means permanent support on principle of all those efforts which aim at the destruction of the British Empire as the most effective means of permanently breaking the English raw-material ring. It involves the promotion of movements for independence in India, Egypt, and South Africa. In the long run this policy will lead to the desired goal, the smashing of British economic power. The wall which England holds around her line of Asiatic possessions would not hold against the coalition of Germany, Russia, Persia, Japan, and China. The fixed goal of German policy in Asia is plain."⁶⁹

The "drang nach Osten" is to be not merely an economic program, but more than that, a political policy.

⁶⁸ *New York Times*, June 20, 1918.

⁶⁹ A. Goetz, in the *Vossische Zeitung*, quoted in *Journal of Commerce*, Oct. 31, 1918.

CHAPTER V

FRANCE

A. Pre-War Conditions and the Effects of the War

(i) The Decline in Prestige before the War

The war has accentuated what was clear to French economists prior to 1913. From many quarters were heard the repeated warnings of French merchants and professors that France was retrogressing commercially and industrially.

"France, formerly first among the nations, now is third or fourth industrially, and is rapidly sliding backward. Even with a sweeping victory we are lost as a people if we do not make the effort to raise ourselves industrially to the level of the Germans. German barbarity should not blind us to the fact that Germany represents a higher state of economic development. She is so far ahead of us that *volens volens* we must follow her methods."¹

In 1875, Germany and France, with areas approximately the same (541,000 sq. km. in Germany and 536,000 sq. km. in France), had populations of 42,000,000 and 37,000,000 respectively. In 1910, Germany had increased her population to 65,000,000 an increase of 23,000,000, or 55 per cent, while France barely attained 39,000,000, an increase of 2,000,000, or less than 6 per cent. In spite of a stretch of seacoast which should enable France to become a maritime nation par excellence, France, in 1909, had a merchant marine of 1,300,000 tons, as compared with Germany's 2,800,000 tons, or counting only steamships of over 100 tons capacity 801,000 tons for France, as against 2,350,000 tons for Germany. Of about 49,000,000 tons cleared

¹Lysis (pseud) Eugene le Tailleur, Pour Renaitre.

in French ports in 1909, 36,000,000 tons were foreign bottoms. The figures of foreign commerce tell the same story. In 1891, the sum of the imports and exports of Germany were equivalent to 9,160,000,000 francs, while that of France amounted to a little less, 8,340,000,000 francs. Twenty years later, in 1911, these figures had grown to the equivalent of 22,000,000,000 francs and to 14,000,000,000 francs, respectively. While Germany was opening up her mines of coal and metal, and developing new industries, chemical, electrical, and metallurgical, France seemed to be becoming industrially decadent.² From 1870 to 1909 French commerce increased 91 per cent and she declined from second to fourth place, being outstripped by the United States and Germany, with Great Britain still maintaining leadership. On the other hand, in the 30 years from 1872 to 1902, the trade of Germany increased 172 per cent, of the United States 303 per cent, of Belgium 305 per cent, and of the Argentine 980 per cent.³

However, the war has saved France. It required the shock of threatened extinction at the hand of the merciless military class of Germany to awaken France to the reality of the peril of gradual decay. Like England, France suffered from the lethargy that characterizes the family or nation that has inherited wealth. Germany, on the other hand, exhibited all the virility and tireless effort of an individual or a nation that rises from poverty and is disciplined in effort and stimulated by success. Germany would have peacefully conquered both Great Britain and France in another generation or two had pre-war conditions continued. But the war has revealed not only the political danger to the Allied countries from Germany, but also the possibility of developing industries and commercial connections independent of Germany. If but a small fraction of the magnificent zeal which France displayed to an astonished world during the war is shown in the field of commerce, France will easily recover her economic prestige. She has the raw mate-

²Lysis, *op. cit.*

³George Rénard, "Les Répercussions Économiques de la Guerre Actuelle sur la France," p. 109.

rials, the scientific and technical ability, and the flexible political institutions which should enable her to regain her commercial position.

(ii) *The Increase in the Volume of Trade during the War*

As with the other belligerents, the value of imports and exports increased. In 1913 the total imports were 8,421,000,000 francs. In 1916 they rose to 20,640,000,000 francs, in 1917 to over 27,000,000,000 francs, and in 1918 they were about 20,000,000,000 francs. The drop in 1918 was partly due to the fact that trade was conducted under a system of licensing and that after the American Army arrived in France the French did not need to import to as great an extent the munitions of war. Furthermore, the tentative figures for 1918 may be low. The final figures for 1916 were 36 per cent higher than the tentative.

Exports show the opposite tendency. In 1913 France exported 6,880,000,000 francs worth of merchandise; in 1915, only 3,937,000,000 francs; in the eleven months of 1918, 3,894,000,000 francs.

In the seven pre-war years, from 1907 to 1913, French imports increased about 35 per cent, and exports increased about 23 per cent. In the same period Germany's imports increased only 23 per cent, and her exports increased 47 per cent. French imports were increasing more rapidly than her exports, the difference being made up by her increasing returns on foreign investments, while Germany, on the other hand, increased her exports more rapidly than her imports, and was reinvesting her annual credit balance in foreign countries.

On the following page are the official French figures of foreign trade in recent years, not including transshipped goods.

(a) *Increase in Prices*

The increased values in foreign trade were not due entirely to an increase in the bulk of merchandise moved. France, like all other countries, experienced a considerable rise in prices. The

FOREIGN TRADE OF FRANCE IN RECENT YEARS.

[Figures in million francs: 000,000 omitted]*

Items	1907	1913	1914	1915	1916	1917	1918
IMPORTS							
Raw materials.....	4,073	4,046	3,508	4,653	9,753	11,876	8,778
Food.....	1,038	1,818	1,813	3,315	5,058	6,085	5,019
Manufactures.....	1,171	1,658	1,081	3,068	5,820	8,692	6,118
Total.....	6,222	8,422	6,402	11,036	20,640	27,554	19,915
EXPORTS							
Raw materials.....	1,508	1,858	1,209	768	1,085	1,005	926
Food.....	747	839	646	640	580	490	335
Manufactures.....	2,936	3,617	2,576	2,341	4,218	4,082	2,552
Miscellaneous and parcels post.....	406	566	348	179	323	336	331
Total.....	5,597	6,880	4,869	3,937	6,215	6,013	4,143
Total foreign trade.....	11,819	15,302	11,271	14,973	26,855	33,567	24,058
Excess of imports.....	625	1,542	1,533	7,099	14,425	21,541	15,772
Gold and Silver:							
Imports.....	805	975	956	127	168	204	70
Exports.....	371	431	207	151	40	60	21
Excess of imports.....	434	544	749	...	128	144	49
Excess of exports.....	...	...	...	24	...	...	...

*At normal rates 1 franc = \$0.1930.

official statistics distinguish between wholesale and retail prices. Considering July, 1914, prices as 100.0, the relative level of wholesale prices was in June, 1915, 140.3; in June, 1916, 192.4; in June, 1917, 271.8; and in June, 1918, 347.4. The upward course of retail prices was less marked. Again using July, 1914, prices as a base, the relative level for June, 1916, was 137; for June, 1917, 171; for June, 1918, 232. Similar compilations for particular sections of the country verify these figures. The index of retail prices of 30 commodities at Paris rose as follows: July, 1914, 1075; July, 1915, 1288; July, 1916, 1387; July, 1917, 1971. The index of retail prices in cities of 10,000 and over for 13 commodities, rose as follows:

1st quarter, 1911.....	1014	1st quarter, 1916.....	1336
1st quarter, 1913.....	1020	3rd quarter, 1916.....	1420
3rd quarter, 1914.....	1004	1st quarter, 1917.....	1547
1st quarter, 1915.....	1105	2nd quarter, 1917.....	1711
3rd quarter, 1915.....	1235		

In the light of the increase of commodity prices, the rise in the value of imports of over 100 per cent, from 1913 to 1918, seems

quite normal. On the other hand, the fairly steady level of exports was due to a marked decrease in the bulk of the goods exported. This was to be expected while France was at war.

The official returns for France give both the quantity and the value of imports and exports. During the year 1917, the value of imports reached the highest level. In 1917 the quantity of imports was only 79 per cent of that in 1913, but the value was 3.28 times as great. Of course, there were other elements than price increases to explain this difference. Imports of raw materials were greatly reduced in bulk, whereas imports of manufactures were slightly increased. Bulky goods were discriminated against, and concentrated goods were favored. The following table shows imports of three classes of goods by weight and value:

IMPORTS INTO FRANCE BY COMMODITY GROUPS IN RECENT YEARS.

[By weight. Figures in thousand metric quintals; 000 omitted]

Classes	1909	1913	1915	1916	1917	1918
Manufactures	10,319	15,477	9,918	17,117	21,567	14,801
Food.....	28,163	55,119	62,807	79,229	67,078	48,683
Raw material	302,582	371,607	257,768	304,560	259,681	228,113
Total.....	341,064	442,204	320,493	400,906	348,236	291,598

[By value. Amounts in million francs; 000,000 omitted]

Manufactures	1,181	1,658	3,068	5,829	8,692	6,118
Food.....	952	1,818	3,315	5,058	6,985	5,010
Raw materials	4,113	4,946	4,653	9,753	11,876	8,778
Total.....	6,246	8,421	11,036	20,640	27,554	19,915

RATIO OF FIGURES OF 1917 TO FIGURES OF 1913.

	Ratio of Weights	Ratio of Values
Manufactures.....	1.39	5.25
Food.....	1.22	3.80
Raw materials.....	.72	2.90
Total.....	.79	3.28

In other words, while the quantity of imports of manufactures in 1917 was 1.39 times as great as in 1913, the value was 5.25

times as great. In 1917 raw materials were .72 of the bulk and 2.90 times the value of those in 1913.

A similar condition prevailed in the case of exports. The weight of the exports decreased very much, whereas the value declined but slightly:

EXPORTS FROM FRANCE, BY COMMODITY GROUPS IN RECENT YEARS.

[By weight. Figures in thousand metric quintals; 000 omitted]

Classes	1909	1913	1915	1916	1917	1918
Manufactures.....	18,903	22,833	7,510	8,634	6,493	4,037
Food.....	16,139	14,567	8,896	5,024	4,013	2,719
Raw materials.....	107,599	182,992	24,390	22,884	19,445	32,272
Parcels post.....	287	343	115	157	162	162
Total.....	142,928	220,735	40,911	36,699	30,113	39,190

[By value. Amounts in million francs; 000,000 omitted]

Classes	1909	1913	1915	1916	1917	1918
Manufactures.....	2,748	3,617	2,341	4,218	4,082	2,552
Food.....	824	839	649	589	499	335
Raw materials.....	1,694	1,858	768	1,085	1,095	926
Parcels post.....	453	566	179	323	336	331
Total.....	5,719	6,880	3,937	6,215	6,012	4,144

RATIO OF FIGURES OF 1917 TO FIGURES OF 1913.

	Ratio of Weights	Ratio of Values
Manufactures.....	.28	1.13
Food.....	.28	.60
Raw materials.....	.11	.59
Total.....	.14	.87

In other words, while the exports of manufactures in 1917 were but 0.28 times as large as in 1913, the value was 1.13 times as great. In 1917 exports of raw materials were 0.11 of the bulk and 0.59 of the value of those in 1913.

(iii) Analysis of Foreign Trade by Groups of Commodities

It is interesting to note character of the trade changes indicated by these figures. Counting the value of imports as 100 per

cent, raw-material imports decreased from 64 per cent of the total in 1907 to about 44 per cent in both 1917 and 1918. On the other hand manufactured goods rose as a result of the war from 19 to 31 per cent. In other words, there was relatively less industrial output in France during the war than before. In pre-war days the raw-material imports had about three times the value of the imports of manufactures, but in 1917 and 1918 raw materials exceeded manufactures by barely 40 per cent. That is, France became relatively more dependent upon the outside world for its manufactured goods than before the war. Instead of importing raw materials and working them up at home, France imported less raw material and more finished goods. However, the absolute output of manufactures in war time far exceeded the pre-war record in spite of the fact that over five million Frenchmen were withdrawn from productive work to serve in the Army. As for the imports of food, there was but little rise from 1913 to 1917, relative to the total value of imports. In 1913 food constituted 22 per cent of the imports into France, and in 1917 and 1918, 25 per cent.

As for the exports, using 100 per cent as the total value each year, we find that the exports of raw materials decreased from about 27 per cent of the total in 1913 to 19 per cent in 1917. Exports of manufactures, on the other hand, increased from 53 per cent to 68 per cent in the same period. This might seem an anomaly in view of the fact that the imports of manufactures also increased. The explanation is to be found in the fact that many of the luxury industries of France could not be transformed to a war basis, and continued to do business throughout the war, and thus helped maintain the French trade balance. However, there was a decrease in the physical bulk of manufactures exported. Exports of food, which constituted 12 per cent of the value in 1913, rose to 17 per cent in 1915. France provisioned Great Britain and the neighboring neutrals, including Italy, at that time, who were cut off by the blockade. However, the exports of food declined sharply to 8 per cent of the total in 1917 and 1918, when shipping difficulties increased and when the

general shortage of food throughout France became more acute.

The following figures show the proportion of the classes of imports and exports before and during the war by value:

Classes	1907	1913	1915	1917	1918
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Imports:					
Raw materials.....	64	59	42	43	44
Food.....	17	22	30	25	25
Manufactures.....	19	19	28	32	31
Total.....	100	100	100	100	100
Exports:					
Raw materials.....	27	27	19	19	23
Food.....	13	12	17	8	8
Manufactures.....	53	53	59	68	61
Miscellaneous and parcels post.....	7	8	5	5	8
Total.....	100	100	100	100	100

(iv) *Analysis of Foreign Trade by Countries*

The source of the imports of France changed radically as a result of the war. Primarily, the Central Powers were cut off. This was an important change, for Germany alone furnished over 12 per cent of the imports of France in 1913. Then again, Russia and the other east European countries which were separated from France by the Central Powers were unable to send as much goods to France. To compensate for this loss the accessible countries were more heavily drawn on. Furthermore, France had new and increased needs which had to be supplied. Fundamental changes in the import trade resulted. For purposes of comparison the year 1913 may be taken as the typical peace year and 1917 as the typical war year. (The year 1918 is not so satisfactory because of the restrictions of the war trade boards in the various countries.) Comparing the imports into France in the years 1917 and 1913, we find that the United States supplied France with an amount of goods eleven times as great, Great Britain sent over six times as much; Italy, three times;

Switzerland, four times; Spain, almost five times; the Argentine, three times; and Brazil, almost three times as much. The far-away countries like China, British India, and Chile were less heavily drawn on because of the shortage in shipping. Holland was practically cut off, and Belgium was prostrate, and France called on neither of them for any significant amount of goods after 1915.

IMPORTS OF FRANCE BY COUNTRIES IN RECENT YEARS.

[Figures in millions of francs; 000,000 omitted]

	1913	1915	1916	1917	1918
Allies:					
Great Britain.....	1,115	3,038	4,048	6,807	5,679
Italy.....	240	433	505	815	717
Belgium.....	556	22	5	5	5
Russia.....	458	77	173	153	53
Central Powers:					
Germany.....	1,069	8	4	...	...
Austria.....	103	4	1	...	...
Neutrals—Europe:					
Switzerland.....	135	244	408	509	375
Spain.....	281	581	654	1,348	568
Netherlands.....	114	66	"	"	"
Sweden.....	111	84	"	"	"
Norway.....	37	81	"	"	"
Denmark.....	3	18	"	"	"
America:					
United States.....	895	3,028	4,767	9,771	6,723
Argentina.....	369	473	734	1,046	1,031
Brazil.....	174	210	278	509	419
Uruguay.....	78	141	"	"	"
Chile.....	107	88	"	"	"
Far East:					
British India.....	388	245	"	"	"
China.....	237	150	"	"	"
Dutch Indies.....	124	88	"	"	"
Australia.....	85	235	"	"	"

* Not available. The monthly summary for December, *Documents Statistiques sur le Commerce de la France*, give trade by countries only in cases mentioned above. The annual returns, *Tableau General du Commerce et de la Navigation*, last issued for 1915, give complete classification of trade by countries.

Changes in trade currents between France and other countries may be strikingly indicated by arranging the countries from which France imported her merchandise in the order of importance for each year. It will be noted that the United States took the lead in 1917 and 1918. Comparing 1913 and 1917, Spain

moved up from eighth place to third; Italy from ninth place to fifth; Switzerland from twelfth place to sixth; Brazil from eleventh place to seventh:

CLASSIFICATION OF COUNTRIES IN THE ORDER OF IMPORTANCE OF IMPORTS INTO FRANCE.

[Figures in million francs, 000,000 omitted]

Serial order	1913		1915		1917 ^a		1918 ^a	
	Country	Amt.	Country	Amt.	Country	Amt.	Country	Amt.
1	U. K.	1,115	U. K.	3,038	U. S.	9,771	U. S.	6,723
2	Germany	1,069	U. S.	3,028	U. K.	6,808	U. K.	5,679
3	U. S.	895	Spain	581	Spain	1,348	Argentina	1,031
4	Belgium	556	Argentina	473	Argentina	1,046	Italy	718
5	Russia	458	Italy	435	Italy	815	Spain	563
6	Br. India	388	Australia	283	Brazil	500	Brazil	418
7	Argentina	369	Br. India	245	Switzerland	509	Switzerland	375
8	Spain	281	Switzerland	244	Russia	153	Russia	53
9	Italy	240	Brazil	210				
10	China	237	China	150				
11	Brazil	174	Uruguay	141				
12	Switzerland	135	Chile	88				
13	Dutch E.		China	88				
	Ind.	124	Sweden	84				
14	Netherlands	114	Norway	81				
15	Sweden	111	Russia	77				
16	Chile	107	Netherlands	66				
17	Austria	103						
18	Australia	85						
19	Uruguay	78						

^aFigures for 1917 and 1918 not available except as given.

In addition to showing the changes wrought by the war, the shifting of the trade of France toward the manufacturing countries chiefly and toward the food-producing countries next, the above table vindicates strikingly the opposition on the part of French economists to the contemplated boycott of Germany and to the granting of preferences to the Allied powers as against the neutrals.

A corresponding change took place in the destination of the exports of France. The aggregate value declined from 6,880,000,000 francs in 1913 to 4,143,000,000 francs in 1918, and there was a much more striking decrease in tonnage, from 220,745,000 metric quintals in 1913 to 39,191,000 metric quintals in 1918. Germany and her allies were completely eliminated. Belgium and the East European allies were largely cut off. Holland, the Argentine, Australia and Japan became less accessible to

French exports. Exports to adjacent neutrals and nearby allies increased considerably. Comparing 1913 and 1917, exports to Belgium shrank to about one-eighteenth, whereas exports to Italy almost tripled, to Spain increased about 30 per cent, and to the United States increased about 50 per cent.

EXPORTS FROM FRANCE BY COUNTRIES IN RECENT YEARS

[Figures in million francs; 000,000 omitted]

	1913	1915	1916	1917	1918
Allies:					
Great Britain.....	1,454	1,009	904	1,016	971
Italy.....	306	388	681	971	803
Belgium.....	1,108	36	42	69	29
Russia.....	83	113	852	419	...
Central Powers:					
Germany.....	867	...	...	...	...
Austria.....	44	...	...	...	...
Neutrals—Europe:					
Switzerland.....	406	298	300	490	333
Spain.....	151	139	152	207	163
Netherlands.....	83	44	...	...	...
Sweden.....	25	25	...	...	...
Norway.....	11	22	...	...	...
Denmark.....	23	41	...	...	...
America:					
United States.....	423	446	493	682	372
Argentina.....	200	108	121	140	95
Brazil.....	86	56	63	84	77
Uruguay.....	19	12	...	...	...
Chile.....	40	12	...	...	...
Far East:					
British India.....	32	49	...	...	...
China.....	21	8	...	...	...
Japan.....	15	12	...	...	...
Dutch Indies.....	7	2	...	...	...
Australia.....	15	8	...	...	...

* Figures not available.

The changes indicated in destination will be more apparent if the countries are arranged in the order of their importance as regards the exports of France to them. A comparison of the years 1913-1917 shows that Italy moved from seventh to second place; the United States from fourth to third; Switzerland from fifth to fourth; Russia from tenth to fifth; Spain from eighth to sixth; and Belgium from second to ninth.

CLASSIFICATION OF COUNTRIES IN THE ORDER OF IMPORTANCE OF EXPORTS FROM FRANCE.

[Figures in million francs; 000,000 omitted]

Serial Order	1913		1915		1917		1918	
	Country	Amt.	Country	Amt.	Country	Amt.	Country	Amt.
1	U. K.	1,454	U. K.	1,099	U. K.	1,016	U. K.	971
2	Belgium	1,108	U. S.	446	Italy	971	Italy	803
3	Germany	867	Italy	388	U. S.	682	U. S.	372
4	U. S.	423	Switzerland	298	Switzerland	400	Switzerland	333
5	Switzerland	406	Spain	130	Russia	418	Spain	163
6	Italy	306	Russia	113	Spain	207	Argentina	95
7	Argentina	200	Argentina	108	Argentina	140	Brazil	77
8	Spain	151	Brazil	56	Brazil	84	Belgium	29
9	Brazil	86	British Ind.	49	Belgium	69	Russia	...
10	Russia	83	Holland	44				
11	Holland	83	Denmark	41				
12	Austria	44	Belgium	36				
13	Chile	40	Sweden	35				
14	Br. India	32	Norway	22				
15	Sweden	25	Chile	12				
16	Denmark	23	Uruguay	12				
17	China	21	Japan	12				
18	Uruguay	19	China	8				
19	Japan	15	Australia	8				
20	Australia	15	Dutch E. Ind.	2				

If the boycott of Germany is attempted by France, she will lose her third best customer. Undoubtedly many countries took a greater portion of French exports because of the purely temporary war conditions. However, on the whole, the change in the relative importance with respect to French exports of the countries of the world was less than in the case of French imports. With the exception of Belgium, Germany, and Italy, the countries of the world maintained their relative importance in the export list.

(v) *Description of Changes in French Commerce*

Georges Renard, in his book on the effects of the war on French commerce, gives an excellent detailed description of what happened. South America continued as a buyer of industrial exports. The United States took wines and toilet goods, and the United Kingdom foods, wines, and automobiles. Indo-China and Japan bought foods and building materials. Even the neutrals and Italy bought their food during the early part of the war from France; chiefly condensed milk, butter, fish, cereals,

nuts, and raisins. The war greatly accelerated the manufacture and export of chemicals. France is one of the greatest producers of bromine, which before the war was manufactured by Germany and the United States only. In the following table of chemicals exported the minus sign indicates an excess of imports, and the plus sign an excess of exports. The quantities are in metric quintals (220 lbs.): *

Article	1913	1916
	<i>Metric quintals</i>	<i>Metric quintals</i>
Ammonia.....	- 2,035	+ 16,489
Soda.....	- 7,146	+ 45,250
Sulphate of ammonia.....	+ 2,022	+ 87,283
Chloride of potash.....	+ 10,873	+ 22,270
Chloride of soda.....	+ 9,451	+ 237,942

As for imports, there was a depression from the outbreak of the war until November, 1914, but a very prompt resumption in 1915. Imports of raw materials increased the least, because many factories were in the invaded departments. The nature of the imports changed. Luxuries were replaced by useful goods, as carpenter's wood for hardwood. More cheap glass was imported and less cut glass. Pipe tobacco replaced cigarettes, whisky replaced liqueurs. To make good the elimination of nutgalls from Turkey, coal-tar products and potash from Germany, cotton thread from Alsace, and wheat from Russia, France turned to the United States, South America, and Great Britain. Substitutes were developed and available commodities more extensively utilized, as wood-charcoal for coal. Besides, military supplies were much in demand, including metals, chemicals, surgical goods, horses, harness, etc. Meats came from Australia, the United States, and South America, chocolate and malted milk from Switzerland. The importation of many commodities declined. For instance, the annual cotton imports at Havre prior to the war exceeded one million bales. In 1916, the imports at this port amounted to 756,000 bales, and in 1917, 683,000 bales. At

* *Le Matin*, Oct. 8, 1918.

the same port, the imports of coffee declined from 2,826,000 bags in 1916 to 1,440,000 bags in 1917.⁵

The tremendous increase in trade with the adjacent countries affected the routes of trade. For instance the port of Cette, on the Rhone, near the Spanish frontier, was the transshipment point for goods in transit to Switzerland. It was also a receiving center for military supplies. Wines, petroleum, coal, bread-stuffs, and chemicals were the chief commodities imported here. Transshipments in 1914 amounted to 49,653 tons, in 1915 to 201,859 tons, and in 1916 to 598,872 tons. The largest item was wheat, which in 1916 amounted to 436,272 tons.⁶

(vi) *The Balance of Trade*

The war has had a very marked effect on the trade balance of France. Before the war there had always been an excess of imports, but it was small and was more than balanced by the income from French capital invested abroad and by the expenditure of tourists in France. The excess of imports for several years was as follows: ⁷

Year	Excess of Imports	Year	Excess of Imports
	<i>Million francs</i>		<i>Million francs</i>
1907.....	626	1915.....	7,099
1909.....	524	1916.....	14,425
1913.....	1,541	1917.....	21,541
1914.....	1,533	1918.....	15,772

Before the war France had 30 to 40 billion francs invested abroad. As a result of the alignment of Turkey with the Central Powers and of the revolution in Russia, much of the French foreign investment is temporarily not bearing interest. There is no off-setting credit from interest payments to balance the excess of commodity imports.

⁵ Supplement to *Commerce Reports*, No. 5-B, June 28, 1918.

⁶ *Ibid.*, No. 5-A, March 12, 1918.

⁷ From the official returns, Dec., 1918; Dec., 1916.

During the war there was an attempt to increase exports and to reduce imports. Luxury imports were eliminated, and essential imports were restricted. Trade was classified into three groups: (1) Commodities importable without any authorization; (2) commodities importable if authorized; and (3) commodities importable contingent upon circumstances. During the war, France had a favorable trade balance in Italy and therefore made extensive purchases there. In the case of the other countries, France bought through Great Britain as her agent, whose exchange rate was supported by the sale of Treasury bills in the United States, and who advanced loans to France on account of purchases. To support her exchange, France shipped gold, though in limited quantities. She also sold securities in foreign countries, and obtained credits from governments or borrowed money of the public in the United States, Spain, Argentina, and Japan. After the war France will need machinery and raw materials. To pay for these she will have to borrow further. She will be unable to export finished goods until her industries have been started with the aid of imported raw materials and machinery. For some time to come, France's position will be similar to that of the backward countries, having a continuous excess of imports which would, ordinarily, depress the exchange rate. However, by funding the floating indebtedness, and for some years, reinvesting the interest on the fixed debt, it is possible to keep the exchange rates normal and to enable the country so to increase its exports as to strike a more even merchandise balance.^a

B. After-War Policies

In the main, the policies proposed for France with respect to commerce after the war are similar to those of Great Britain. Proposals for the promotion of trade and for the development of official and unofficial machinery for this purpose have been made. The question of stabilizing foreign exchange has called forth a variety of schemes. New financial instruments to facili-

^a "Le Reglement des Balances de Comptes," by Maurice Alfassa, in *La Nouvelle Revue*, August 15, 1917.

tate trade have been proposed. Tariff changes have been talked of. Commercial treaties have been abrogated to permit the establishment of new trade relations. The advocates and opponents of economic warfare have taken a hand in the attempt to reconstruct French commerce.

(i) *The Promotion of Trade*

Hard pressed as France was during the war, there was nevertheless a considerable number of her economists and legislators who kept the after-war commercial situation in view. The means advocated for the promotion of foreign trade included the creation of new trade associations, the development of commercial fairs, the establishment of additional chambers of commerce abroad, the publication of trade information, official and private, and the rendering of official aid to trade by the National Office for Foreign Commerce.

(a) *Trade Associations*

The Association Nationale d'Expansion Economique, formed by the Chamber of Commerce, is a semi-official body. It has several sub-committees, specializing in particular branches of the export trade. It includes the most important chambers of commerce and associations of merchants and manufacturers in France. It has made a survey of the agriculture, industry, and commerce of France, particularly with reference to the after-war conditions. Seventy industries, running the entire gamut of French economic life, have been surveyed and reported on. The association also has arranged to advise French exporters concerning customs duties, import and export regulations, transportation rates and regulations, taxes, trade opportunities, and foreign exchange situations. Its bulletin publishes changes in tariff rates and commercial laws. The purpose of the organization is to prepare for after-war competition; to coördinate the work of commercial bodies, "to stimulate the creation of institutions and organizations which facilitate the manufacture and sale of French

products, to develop new industries in France and open new foreign markets, and to help French merchants abroad."^{8a}

A similar body has been founded called Union Nationale pour L'Exportation des Produits Français et pour l'Importation des Matières Premières. The aim of this organization is to foster combinations of small manufacturers and merchants who can not individually maintain an export organization and who are unable alone to obtain the benefits accruing to large companies.⁹

(b) *Fairs*

Henri Hauser's book, "Le Methodes Allemandes d'Expansion Economique,"¹⁰ points out the elements of German success in foreign trade. The German fair at Leipzig, by its success, moved the Mayor of Lyon, Edouard Herriot, to establish an annual fair at Lyon, at which the products of France and of other countries are exhibited and sold. The first fair took place in March, 1916, and the second in March and April, 1917. There were over 1,000 exhibitors at the first, and over 2,500 at the second.

In addition to this national fair, fairs which specialize in local products have been inaugurated. Bordeaux held such a fair in September, 1916, and another in September, 1917, and exhibited the products of the French colonies which have always been marketed at that city. Paris exhibited the products of Parisian industry at the eleventh fair held in May, 1917. Other cities contemplate holding annual fairs for the development of the trade in special products manufactured or marketed by their merchants.

(c) *Chambers of Commerce*

The Chamber of Commerce has been an important feature of French foreign-trade organization since the eighties of the last century. Over thirty chambers of commerce have been estab-

^{8a} *Le Matin*, Dec. 16, 1915.

⁹ Report of C. W. A. Veditz, commercial attaché at Paris, *Commerce Reports*, Dec. 27, 1918.

¹⁰ English translation, "Germany's Commercial Grip on the World," Scribner's, New York, 1917.

lished outside of France, the oldest being at Alexandria, Egypt. They report to the National Office of Foreign Commerce and to individual French business men or chambers of commerce in France. It has been suggested that the commercial attachés maintain their offices in the French chambers of commerce in foreign countries. A proposal has also been made that the chambers of commerce in France form Regional Economic Councils and that the representatives of the domestic and foreign chambers meet in a Parliament of Commerce.¹¹

In view of the fact that Russia in 1913 bought but 56,000,000 rubles of merchandise in France, as compared with 677,000,000 rubles in Germany, the French early in 1914 formed a body, called "French Stores in Russia, Incorporated," but owing to the war it made little headway. However, it has established agencies at Moscow and Nijni Novgorod and has opened sales rooms in various other cities. It intends to promote trade by means of bulletins and cinematograph films. The proposed Paris-Trieste-Odessa Railroad will reenforce the efforts of the French Chamber of Commerce to secure Russian trade.¹²

The war has stimulated the French Chamber of Commerce of Petrograd in many directions. It intends to train young Frenchmen to become export agents, to publish information for Russians on the commercial usages of France, and for Frenchmen on the commercial usages of Russia. It plans to list trade opportunities, goods wanted, and goods offered for the use of both French and Russian traders. It will maintain in Russia a sample museum of French goods, assemble the catalogues of French exporters, and arbitrate commercial differences between the French merchant and the Russian customer.¹³

In America the Franco-American Chamber of Commerce, Incorporated, was created early in 1918 as a result of the suggestion of the Comité Republicain du Commerce de l'Industrie et de l'Agriculture, and the Union des Négociants Industriels et

¹¹ *L'Information Universelle*, May 17, 1916, quoted by Renard.

¹² Renard, p. 141, "Magazins Généraux de France on Russie."

¹³ *Le Temps*, April 18, 1916, quoted by Renard, p. 140.

Agriculteurs Français. It is to be similar to the other international chambers of commerce in its purpose.

Its sub-committees are classified according to commodities which the French merchants wish to sell in the United States, as perfumes, wines, waters, silks, laces, toys, porcelains, glassware, cutlery, jewelry, and household goods. There will be additional committees dealing with other subjects as duties, customhouse procedure, transportation and freights, lawsuits, and relations with official bodies in the United States.

(d) *Publications*

The Association Nationale intends to publish annually an index of French manufacturers in the French, English, and Spanish languages, for circulation among foreign importers. It also plans to publish a monthly review, *L'Expansion Economique*, with articles on general economic topics and specific sections dealing with the agriculture, industry, and commerce of France and the other principal countries of the world. In addition to the publications of the Association Nationale d'Expansion Economique, a host of new papers which aim to promote French trade have grown up. Chief among these is *l'Exportateur Français*, which is similar to the *Deutsche Export Revue*. Maurice Adam, a former Under-Secretary of State and at present a member of the Chamber of Deputies, founded this paper. The French Federation of International Commerce publishes its organ, the *Mercure*. Others are *Commerce et Industrie*, a monthly; *L'Initiative Commerciale*, a monthly; *Le Moniteur du Commerce*, a weekly; *La Victoire Economique*, a weekly; and *Le Soir*, a daily commercial paper.¹⁴

In addition to the unofficial publications, the National Office of Foreign Commerce publishes a series of papers. The *Moniteur Officiel du Commerce*, a weekly, reports changes in foreign tariff laws, in French commercial legislation, and in the commercial laws of foreign countries. It publishes the reports of the French consuls and the trade opportunities that are likely to interest French exporters.

¹⁴ C. W. A. Veditz, *op. cit.*

The *Feuille d'Information*, a weekly, is an abstract of the *Moniteur Officiel*, which gives the general trade news. It is widely circulated and is posted in public places such as schools of commerce, railway stations, and other public institutions. The special reports on specific commodities or specific foreign countries, *Dossiers Commerciaux*, are issued from time to time to French firms, sometimes confidentially. Special surveys of particular commodities, special markets or of specific subjects are also published from time to time.

(e) *Official Aid*

To prepare for the after-war trade it was necessary that members of French export companies be released from military duty promptly after the cessation of hostilities. The French Chamber of Commerce at Barcelona petitioned the French Ministers of War, Commerce, and Foreign Affairs, "that all Frenchmen living abroad before the war as representatives of French firms be the first class to be demobilized without regard to age and be sent back to their places of business at the conclusion of hostilities."¹⁵ The Committee of the Chamber of Deputies on Commerce and Industry likewise petitioned these ministers (May 31, 1916) that "the Minister of Foreign Affairs, together with the Minister of Commerce, immediately organize to resume business in foreign countries. To this end he should charge those Frenchmen whose business was in foreign countries to make their requests for discharge and that for this purpose the Minister of War release them from service."¹⁶

The Office National du Commerce Extérieur is the official agency for the promotion of French export trade. It was founded in 1898, but in the opinion of Frenchmen it has not fulfilled expectations. On February 1, 1917, a law was passed to stimulate its activities. It was to receive a budget of 250,000 francs for the purpose of conducting inquiries abroad, opening a sample mu-

¹⁵ *Le Temps*, Dec. 15, 1918, prints this letter dated May 5, 1917, and urges the adoption of the proposal.

¹⁶ National Foreign Trade Council, "After-War Trade Conditions," April, 1918.

seum as a guide for exporters, training consuls, and communicating with the consulates. Before the war, the task of the Office National was to furnish to French exporters and manufacturers such information as would promote foreign trade. It worked through the diplomatic and consular services, the foreign-trade counselors, and the French chambers of commerce abroad. The office still receives and distributes confidential information about specific foreign customers. It keeps a collection of catalogues and calls important information to the attention of interested French firms. It keeps a classified list of French exporters whom it puts in touch with its foreign agents and with foreign importers who apply for information.

There are four bureaus in the Office National. The first is concerned with publication and with credit information. Another bureau is in charge of samples and of technical data, so that exporters of a given product may know of the principal nations selling and buying the product. It furnishes lists of foreign dealers and upon request purchases samples and catalogues for French exporters and importers. A third bureau looks after customs tariff and trade statistics. It has information on statistics of production, consumption, imports and exports, rates of duty, the nature of commercial treaties, and regulations concerning importation and exportation of goods. The fourth division keeps track of rates of transportation, insurance, postage and telegraph.¹⁷

There has been dissatisfaction in France with the consular service on the ground that it was considered a field for rich young men who looked forward to a career in diplomacy and were ignorant of commerce and often of the language requirements of the country to which they were assigned. Changes were frequent and no consistent policy could be outlined or followed. As a result of the reorganization of the British Department of Overseas Trade, the French have turned their thoughts to a similar reform. A bill was introduced in the Chamber of Deputies to separate the consular and diplomatic services. It also provided that all applicants for the consular service should be trained in

¹⁷ C. W. A. Veditz, *op. cit.*

the theory and practice of commerce at one of the commercial centers in France, and then be attached more or less permanently to a foreign post and be promoted in the same place if possible, rather than by transfer.

France has under consideration a reorganization of the Office National du Commerce Étranger, on the same lines as the reorganization of the Board of Trade was effected in Great Britain, by creating a new branch which will unite the diplomatic and economic service. The project was formulated in a report submitted to the Chamber of Deputies by the Commission for Commerce and Industry. It provides for the appointment of commercial agents by the Minister of Commerce. The duties of the agent will be to collect important information, to travel over the region in his charge, and seek outlets for French goods, to keep in touch with the development of new enterprises, obtain specifications of proposed contracts, to furnish credit information after solvency of states or firms applying to France for financial assistance, to report proposed changes in laws concerning labor, immigration, industry, and tariffs. The commercial agent is also expected to assist Frenchmen who go abroad to do business. The number of commercial attachés is to be increased from five to twenty. They are expected to supervise the French commercial intelligence service, including the commercial agents. The report recommends an increase in the number of foreign offices such as were opened in London and Zurich. Finally, it suggests the unification of the work of both the Foreign Office and of the Ministry of Commerce in a Supreme Commissariat of Economic Expansion.

(ii) *Financial Proposals*

(a) *Exchange Rates*

As a result of the tremendous increase in the excess of imports during the war, and of the need for further excess of imports until French industry can be rehabilitated, the rate of exchange has been and will probably continue to be unfavorable to France.

To strengthen it various means have been proposed. Primarily, imports will be kept under license so that all unnecessary imports such as luxuries may be eliminated. However, there is a danger of retaliation by the country whose exports are discriminated against. A less objectionable method is for France to increase exports. In order to do so it will be necessary for the nations that are the creditors of France to encourage imports from her. As luxuries will for a long time be in less demand by war-swept Europe, French men of affairs insist upon the development of production of necessary goods to replace the luxury industries which furnished so large a part of French exports.

In order to buy raw materials France will need credit. This must be supplied by the countries which wish to sell to her. That is, the floating debt which arises from merchandise shipments will have to be consolidated from time to time into fixed loans which will relieve the pressure on exchange rates. The creditor countries will have to permit the reinvestment in France of the interest on their loans so that payment may be made in the currency of France, and used within the country until France has sufficiently revived industrially to restore normal exchange rates and to be able to repay the loan and the interest.

(b) *Credit Facilities*

The establishment of a bank for export has been urged by the Office of Foreign Commerce, by various Chambers of Commerce, and by Jacques Stern of the Chamber of Deputies, so as to enable French merchants to compete with their German rivals, whose success was based largely on the ability to extend long-term credit. Another proposal is the formation of an international bank of the Allies, to act as a clearing house for the bills of exchange of the merchants in the Allied countries.

Other proposals are designed primarily not to extend credit for foreign trade, but rather to strengthen the economic situation in France and thus indirectly to facilitate foreign trade. A loan bank, which would lend to small merchants of good character, was proposed by a member of the Paris Municipal Council. Ap-

parently, the plan is similar to the Morris plan in the United States. Another proposal passed by the Chamber of Deputies, but held up by the Senate, was the formation of mutual-credit societies which would endorse the paper of its members and discount it with the great banks. A series of regional banks and a central bank are part of this plan. Still another plan approved by the Deputies but held up by the Senate was to establish a Bank of Credit to Commerce and Industry. It was to lend money on long-term loans on the pledge of property, real or personal. The term was to be one to twenty-five years. The state was to contribute 5,000,000 francs, which would constitute a revolving fund, and be replaced by money derived from the sale of bonds, as in the *Crédit Foncier*.¹⁸

(iii) *Tariff Plans*

In August, 1915, the Chamber of Deputies appointed a Committee on the Tariff, to study the tariff conventions and treaties of the various countries, with the aim primarily of protecting French industries developed during the war. Furthermore, in order to secure her position under the altered conditions after the war, France announced that she would put all her trade relations with other countries on the basis of a bargaining tariff. This action was taken chiefly because the other Allies did not take kindly to the resolutions of the Paris Economic Conference. The announcement meant that all of France's fifty-two most favored nation treaties with other countries would lapse.

The French tariff law provides two rates, the general and the minimum. By means of this dual rate, the Government is in a position not only to protect its newly established industries but also to develop along industrial lines. Furthermore, countries that discriminate indirectly against France by levying high duties on her typical products are thus threatened with retaliation. That is, the old most favored nation clause which compelled France, according to the Treaty of Frankfort, to give Germany the bene-

¹⁸ Renard, p. 129, 125.

fit of every tariff advantage which France extended to any other country, is abandoned.

(iv) *Preferences and Anti-Alien Laws*

As in Great Britain, there is a strong party that favors a nationalistic and exclusive colonial policy. That is, the French colonies are to be developed by and for Frenchmen. Before the war, Tunis and Morocco bought very heavily in Germany. Even during the war, the British owned the paper industry of Algeria. Some Frenchmen are equally opposed to British and to German control. Therefore they propose to create a Colonial Institute to train future colonists and to encourage emigration. This, of course, implies an increased birthrate, which all Frenchmen are urging and hoping for. The merchant marine is to be developed, and investments made in colonial products. On the other hand, other writers point out that it is impracticable to attempt to develop the French colonies by Frenchmen exclusively. The country is short of men, of tonnage, of credit, and of energy.¹⁹

The sentiments of the Paris Economic Conference in favor of a closer economic union of the Allies and of a discrimination against Germany have not yet died out. Two-thirds of the nations of the world were opposed to Germany and it should be an easy matter to attract the neutrals to the larger group of powers.²⁰ An International Committee of Anti-German Associations was formed to recommend to the Allies a means of fighting German competition. However, many prominent French economists and merchants are opposed to any form of economic war. Henri Hauser calls the anti-German boycott a dream and a nightmare. Alfassa thinks it will be absurd to put up a Chinese wall between the two belligerent groups. Only international coöperation can reconstruct a devastated world. André Le Bon, president of the Federation des Industriels et Commerçants Français, says, "We must avoid the use of formulæ which will paralyze our efforts toward expansion." The Franco-British Committee

¹⁹ Renard, *op. cit.*, p. 140. Alfassa, *op. cit.*, *La Nouvelle Revue*, Aug. 15, 1917.

²⁰ Renard, *op. cit.*, 131, 136.

recommends, "We do not aim at forming a Zollverein to bind together the Allied nations whose interests are so dissimilar." Eugene A. Chauvin, president of the Franco-American Chamber of Commerce, states, "To my mind the raising of a protective tariff against Germany after the war would be a blunder."²¹

The Federation of French Manufacturers and Merchants opposes the boycott as a puerile effort, carried on by a minority of ultra-nationalists, supported by a portion of the press. A boycott would mean the closing of the German market to French goods, and the loss of a customer who bought a thousand million francs worth of goods a year. Besides, Germany has raw materials and machinery which France can profitably purchase. The Congress of Coöperative Societies resolved, "as regards Germany, Austria, and their allies, to abstain from systematic boycott which would be intended solely to ruin their trade, but on the other hand to allow them free access to the markets of the countries of the Entente only on condition that the two Empires should subscribe to the principle of international arbitration."

As a result of the treaty, France now owns the Lorraine iron mines from which Germany obtained 73 per cent of her ore. To keep her furnaces going Germany will have to buy ore. On the other hand, France will need 15,000,000 tons of coal and 7,000,000 tons of coke. This Germany can supply. Mutual trade must follow. To obstruct or divert it will be costly.

Charles Gide doubts not only the practicability of the boycott, but even the likelihood of any far-reaching changes in trade.

"History has never verified the expectation of sudden and general transformations. It is very probable that neither among the Allies nor among the enemies of yesterday will the commercial relations be as much changed as we might have been justified in anticipating."

But even the liberals who oppose the anti-German boycott are strongly in favor of prohibiting all aliens or alien companies from engaging "in any industry or occupation concerned with national defense or affecting economic independence" unless by special

²¹ *Journal of Commerce*, Mar. 7, 1918; "World Trade Conditions After the War," p. 42, 1918.

authorization, which would be granted for a limited period only and subject to revocation.”²²

M. Clementel, the French Minister of Commerce, who favored the Paris Economic Resolutions, proposed in 1917 a Register of Commerce, in which would be entered every French firm or company and every foreign one having branches in France. Foreign merchants would have to give their original nationality, the new one if changed, and how the change was effected. In the case of a foreign corporation the names and nationalities of stockholders and directors, as well as the managers, would have to be revealed.²³

A law with this end in view was enacted early in 1919. Its main provisions follow:

Article 4. Every tradesman shall within the month of the opening of his business request to be registered in the commercial register. The applicant shall submit a declaration mentioning the family name and the first names of the tradesman; the name under which he carries on his trade and, if there be need, his surname or pseudonym; the date and place of his birth; his original nationality, and in the case of his having acquired another nationality, the mode and date of its acquisition; the object of the trade; the situation of the branch offices or agencies of the business in France or abroad; the sign or name of the firm; the family names, first names, dates of birth, places of birth, and the nationality of the attorneys; commercial establishment previously managed by the declarant.

* * * Article 8. Any French or foreign trader having his principal office in a foreign country and a branch office or agency in France, shall register within the month following the opening of that agency or branch. His declaration shall contain every item

²² *Economic Journal*, London, Dec., 1916; *L'Avenir*, Sept., 1916; *Economic Journal*, London, Dec., 1916. "Commercial Policy of France After the War."

L'Avenir, Paris, Sept., 1916, "Le Régime Commercial après la Guerre."

Charles Gide, "La Politique Commerciale après la Guerre," Paris, 1917.

²³ Renard, *op. cit.*, 135.

named in article 4 as well as the address of his principal office.

Article 9. The manager of any foreign commercial company which shall establish a branch or an agency in France shall before the opening of such a branch or agency submit a declaration stating the amounts to be furnished by the shareholders and silent partners; the manager's name, surname, date, and place of birth, original nationality, and in the case of his having acquired another nationality, the mode and date of its acquisition; names, first names, dates and places of birth, as well as the nationalities of the managers appointed during the existence of a company; of the members of the board of directors of limited liability companies, with all other facts prescribed in article 4.²⁴

However, although it is contended that foreigners are to be discriminated against, or at least are to be under strict surveillance, there is to be no restriction on the admission of foreign capital. Indeed, the *Economiste Français* is opposed to any restrictions on the admission, not only of foreign capital, but even of foreign business men, primarily because there is danger of retaliation, and in addition, because publicity is a more effective and less offensive method.^{24a}

²⁴ *Commerce Reports*, June 9, 1919.

^{24a} Feb. 17, 1917, quoted in the *World Trade Conditions After the War*, April, 1919.

CHAPTER VI

ITALY ¹

A. Pre-War Conditions and the Effect of the War

(i) Increase in the Volume of Trade

During the thirteen years preceding the war the trade of Italy increased 100 per cent, the imports increasing more than the exports. As the result of war conditions the increase in imports from 1913 to 1918 was 400 per cent. The exports increased slightly, being 32 per cent greater in 1917 than in 1913.

The figures for the values of exports and imports follow:

FOREIGN TRADE OF ITALY IN MERCHANDISE AND EXCLUDING PRECIOUS METALS.

[Figures in million lire; 000,000 omitted]^b

Year	Imports	Exports	Excess of Imports
1900.....	1,700.2	1,338.2	362.0
1905.....	2,015.8	1,705.3	310.5
1909.....	3,111.7	1,866.9	1,244.8
1910.....	3,246.0	2,080.0	1,116.0
1913.....	3,645.6	2,511.6	1,134.0
1914.....	2,923.3	2,210.4	712.9
1915.....	4,703.6	2,533.4	2,170.2
1916.....	8,390.3	3,088.3	5,302.0
1917 ^a	7,732.2	2,258.9	5,473.2
1917.....	13,991.2	3,308.5	10,682.7
1918 ^a	14,101.6	2,483.5	11,618.1

^a Tentative return for the year showing quantity of imports of current year, valued at prices of previous year. These are subsequently revised. Note that the final values of exports and of imports for 1917 are respectively 1.81 and 1.46 times as great as the tentative figures. In other words, the prices of exports rose 81 per cent during 1917 and the prices of imports 46 per cent.

^b At normal rates 1 lire = \$0.1930.

¹ *Statistica di Importazione et di Esportazione*, Jan. 1-Dec. 31, 1917-8; *Movimento Commerciale Del Regno d'Italia*, 1913, 1916.

Taking 1913 values as 100, the trade of other years would be:

RELATIVE FOREIGN TRADE FIGURES.

Year	Imports	Exports	Excess of Imports
1900.....	47	53	32
1913.....	100	100	100
1914.....	80	88	63
1915.....	129	101	192
1916.....	230	123	467
1917.....	384	132	944
1918*.....	400	99	1,025

* Tentative return.

The table indicates a slight increase in exports during the war but a tremendous increase in imports. The net result is that the excess of imports in Italy in 1918 was over ten times as great as in 1913, and almost twice as great as the excess of imports of Great Britain in 1913.

(ii) *Classification of Foreign Trade by Commodity Groups*

In considering the various groups of commodities that enter into foreign trade one finds naturally that the increases in value were not the same in all cases. Raw material imports decreased relatively, but imports of food increased greatly. Imports of semi-finished products comprised a larger percentage of the total in 1918 than in 1913. The reverse was true of imports of finished goods.

Of the total exports of Italy, food formed a much larger percentage in 1913 than in 1917. Food exports decreased because of home requirements. On the other hand, exports of manufactures made up a much larger share of the total in 1918 than in 1913, as Italy increased her manufacturing facilities during the war. Exports of raw materials declined slightly relatively to the total. Raw materials were needed for home manufactures and shipping space was too high to permit the profitable export of the surplus of bulky raw material.

The classification of commodity groups entering into foreign trade follows:

ITALY'S FOREIGN TRADE BY COMMODITY GROUPS.

[Figures in million lire; 000,000 omitted]

Commodity Groups	Imports				Exports			
	1909	1913	1917*	1918*	1909	1913	1917*	1918*
Raw material for manufacture.....	1,127.7	1,391.5	2,246.3	3,490.2	279.8	360.7	234.0	359.6
Semi-finished goods	571.0	609.6	1,914.6	3,721.0	617.3	590.4	693.0	703.6
Manufactured goods	754.3	851.9	1,074.6	2,334.9	475.1	798.1	948.7	923.7
Food and live animals.....	658.6	702.6	1,896.7	4,555.5	494.7	762.4	381.1	496.7
Total.....	3,111.6	3,645.6	7,732.2	14,101.6	1,866.9	2,511.6	2,258.8	2,483.6

* Tentative return based on weight of given year and price of year previous; while the value is incorrect the percentage distribution is fairly accurate.

The relative importance of commodity groups appears more clearly in the following table showing percentages of the total imports or exports:

PERCENTAGES OF TOTAL FOREIGN TRADE REPRESENTED BY COMMODITY GROUPS.

Commodity Groups	Imports				Exports			
	1909	1913	1917*	1918*	1909	1913	1917*	1918*
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Raw material for manufacture	37	39	29	25	15	14	10	14
Semi-finished goods.....	18	19	25	26	33	24	31	29
Manufactured goods.....	24	23	22	17	25	32	42	37
Food and live animals.....	21	19	24	32	27	30	17	20
Total.....	100	100	100	100	100	100	100	100

* Tentative return; latest available.

Still another way of viewing the distribution of commodity groups in the total trade of Italy may be presented. The excess of imports or of exports in each of the four groups over a period of years will indicate what the tendency is. Comparing the year before the war, 1913, with two war years, 1917 and 1918, we note that the excess of imports of food grew greatest both actually and relatively. Italy's food supply decreased and her food requirements increased. The group in which the excess of imports rose least was manufactured products. In 1909 and 1913 the greatest excess of imports was in raw materials and in 1918 in food. On the contrary, exports exceeded imports of semi-finished products in 1909 and of food and live animals in 1913. But in

1917 and in 1918 the smallest excess of imports was to be found in the manufactured products group:

BALANCE OF TRADE BY COMMODITY GROUPS.

[Figures in million lire; 000,000 omitted]

Excess of imports, (-); excess of exports, (+):

Commodity Groups	1909	1913	1917*	1918*
Raw material for manufacture.....	- 847.9	-1,030.8	-2,012.3	- 3,190.6
Semi-finished goods.....	+ 46.3	- 109.2	-1,210.6	- 3,017.4
Manufactured goods.....	- 279.2	- 53.8	- 725.0	-1,411.3
Food and live animals.....	- 163.9	+ 59.8	-1,515.6	- 4,058.8
Total.....	-1,244.8	-1,134.0	-5,473.3	-11,618.1

* Tentative return; latest available.

(iii) Classification of Foreign Trade by Articles

The foreign trade of Italy is classified not only by great groups of commodities based on use or destination, but also by articles, as oils, chemicals, cotton, cereals, etc. A four-year comparison of imports and exports of the eighteen official groups of articles offers another perspective of the effects of the war on Italian foreign trade. The table follows:

ITALY'S FOREIGN TRADE BY ARTICLES.

[Figures in million lire; 000,000 omitted]

IMPORTS.

Articles	1913	1915	1916	1917*	1918*
Oils, spirits and beverages.....	114.4	163.3	313.1	400.7	556.4
Spices, tobacco and colonial products.....	111.3	127.1	247.1	343.8	305.5
Chemicals, drugs, perfumes, etc.....	147.1	219.4	500.8	1,350.4	1,451.9
Dyes and colors, tanning materials.....	36.0	40.7	121.0	213.1	441.6
Hemp, jute, flax, vegetable fiber.....	69.9	73.0	107.9	143.3	123.7
Cotton.....	380.4	486.8	723.6	1,332.3	1,103.5
Wool, hair.....	202.4	311.8	708.4	602.6	621.3
Silk.....	222.6	109.0	161.0	121.3	142.9
Straw, wood.....	172.5	53.2	88.8	116.3	61.8
Paper and books.....	48.0	55.7	83.2	91.2	73.4
Hides and leather.....	151.8	258.9	377.3	356.4	356.7
Minerals, metals and manufactures.....	578.0	561.4	1,283.5	3,407.4	2,723.3
Vehicles.....	48.8	11.0	11.8	53.5	50.6
Rock, earthen, pottery, glassware.....	475.6	748.8	1,512.2	1,001.0	1,194.1
Rubber, gutta percha and manufactures.....	59.8	71.0	83.8	90.8	102.6
Cereals and flour.....	568.9	1,131.4	1,478.5	3,411.6	3,837.3
Animals and products.....	189.9	246.0	521.9	638.3	945.8
Miscellaneous.....	59.0	26.2	35.5	38.5	29.1
Total.....	3,645.6	4,703.6	8,390.3	13,991.2	14,101.6

* Latest tentative return.

EXPORTS.

Articles	1913	1915	1916	1917a	1918a
Oils, spirits and beverages.....	161.2	159.1	121.4	189.2	377.3
Spices, tobacco and colonial products.....	19.6	44.0	20.4	18.0	10.9
Chemicals, drugs, perfumes, etc.....	78.4	132.6	212.6	238.5	144.2
Dyes and colors, tanning materials.....	8.2	9.0	11.2	15.1	13.9
Hemp, jute, flax, vegetable fiber.....	109.2	124.2	200.0	298.4	255.9
Cotton.....	256.4	393.1	503.7	575.9	331.0
Wool, hair.....	56.0	124.0	145.8	82.2	6.5
Silk.....	530.0	532.0	799.7	830.5	627.8
Straw, wood.....	67.0	52.3	49.0	40.5	38.0
Paper and books.....	22.0	32.3	45.2	42.1	25.7
Hides and leather.....	85.8	30.0	39.6	39.8	35.5
Minerals, metals and manufactures.....	105.8	115.3	111.8	195.7	109.6
Vehicles.....	43.3	68.0	87.3	144.3	52.2
Rock, earthen, pottery, glassware.....	108.7	87.7	137.0	110.5	114.3
Rubber, gutta percha and manufactures.....	51.1	88.0	46.9	33.9	16.3
Cereals and flour.....	473.3	312.5	330.4	301.8	221.5
Animals and products.....	240.4	163.6	149.8	66.5	47.6
Miscellaneous.....	87.4	55.8	75.7	88.7	55.4
Total.....	2,511.6	2,533.4	3,088.3	3,308.5	2,483.5

a Latest tentative return.

By comparing the extent of the increase of imports and exports of each article and of the total, it is possible to indicate which articles increased to a greater extent or to a less extent than the average. Such a table follows:

GROWTH IN ITALY'S FOREIGN TRADE, BY ARTICLES, 1913-1917

Articles	Imports	Exports
Oils, spirits and beverages.....	4.38 times	1.17 times
Spices, tobacco and colonial products.....	3.45 "	.92 "
Chemicals, drugs, perfumes, etc.....	9.18 "	3.05 "
Dyes and colors, tanning materials.....	5.91 "	1.84 "
Hemp, jute, flax, vegetable fiber.....	2.05 "	2.73 "
Cotton.....	3.43 "	2.25 "
Wool, hair.....	2.97 "	1.44 "
Silk.....	.81 "	1.56 "
Straw, wood.....	.67 "	.60 "
Paper and books.....	1.90 "	1.84 "
Hides and leather.....	2.35 "	.46 "
Minerals, metals and manufactures.....	6.00 "	1.85 "
Vehicles.....	1.10 "	3.33 "
Rock, earthen, pottery, glassware.....	2.23 "	1.02 "
Rubber, gutta percha and manufactures.....	1.52 "	.66 "
Cereals and flour.....	6.00 "	.64 "
Animals and products.....	3.36 "	.27 "
Miscellaneous.....	.63 "	1.02 "
Total or average.....	3.84 "	1.32 "

The articles in which the export trade grew considerably in the order of their increase were vehicles, chemicals, etc., hemp and jute, cotton, dyes and colors, minerals and metals. The articles in which the export trade shrank considerably, in the

order of decline, were animals, straw and wood, cereals and flour, rubber and gutta percha, spices and colonial products.

The articles in which the import trade grew considerably, in the order of their growth, were chemicals, drugs and perfumes, cereals and flour, minerals and metals, dyes, colors and tanning materials, oils, spirits and beverages. Those in which the import trade shrank considerably, in the order of their decline, were straw and wood, silk, vehicles, rubber, paper and books.

In the case of several articles, such as animals and products, cereals and flour, there was an increase of imports and a decrease of exports, due to the needs of the home population. Similarly, many lines of trade reflected the military demand, imports rose and exports fell as, in the case of hides and leather, minerals and metal, rubber and gutta percha, oils and spirits, and spices and tobacco. In the case of the non-essential articles, such as straw and wood, and to a lesser extent, silk, both exports and imports declined. Of chemicals, drugs and perfumes there was a nine-fold increase in imports and a three-fold increase in exports which reflected both the military needs and the establishment of new lines of chemical industries. In cotton, flax, and vegetable fibers, the imports increased less than the average for all commodities, but the exports increased much more than the average. Italy developed new markets for these commodities during the war.

(iv) *Distribution of Foreign Trade by Countries*

In addition to the shifting of trade from one commodity group to another there have also been pronounced changes in the trade currents to and from the various countries. Italy imported great quantities of material from the United States, British India, and Spain, about ten times as much as before the war. On the other hand her imports from nearby countries, like Greece, Switzerland and Tunis, did not keep pace with the general increase of imports for the country as a whole. In her exports there was

a decrease not only relatively but absolutely in the case of the United States, Argentina, and Brazil, and other distant countries. The exports increased to nearby countries, such as Greece, France, Switzerland, and Spain.

The following tables show the value of imports and exports, and the trade balance, classified by countries, the percentage of the total trade taken by the countries specified, and the growth or shrinkage of the trade of each country with Italy in the year 1917 as compared with the year 1913:

FOREIGN TRADE OF ITALY IN RECENT YEARS BY COUNTRIES.

[Figures in million lire; 000,000 omitted]

Country	Imports				Exports			
	1909	1913	1917 ^a	1918 ^a	1909	1913	1917 ^a	1918 ^a
<i>Europe</i>								
<i>Belligerents:</i>								
Great Britain	490.6	501.8	2,164.0	2,180.8	167.9	260.5	482.7	559.4
France	320.1	283.4	992.7	1,026.9	198.7	231.5	912.3	902.7
Greece	6.4	7.7	21.4	17.6	8.0	18.1	92.7	100.9
<i>Neutrals:</i>								
Spain	32.0	20.0	107.1	230.6	10.0	18.1	41.9	30.0
Switzerland	80.5	86.8	248.6	155.9	216.8	249.2	604.2	283.7
<i>Mediterranean Countries</i>								
Egypt	22.1	27.6	141.6	193.3	40.4	49.2	134.0	96.4
Tripoli	1.6	5.0	13.0	8.9	2.9	78.5	62.3	30.4
Tunis	29.0	23.4	32.9	34.9	6.9	12.2	26.1	17.2
<i>Americas and Asia</i>								
United States	300.1	522.7	5,969.4	6,226.7	272.3	267.9	244.5	127.6
Argentina	120.9	166.6	803.9	1,493.6	150.8	185.6	191.3	99.1
Brazil	24.3	55.3	199.2	234.6	16.7	47.6	52.6	44.5
British India	97.5	146.0	1,503.0	1,164.2	23.0	49.4	79.7	32.6
<i>Blockaded or inaccessible</i>								
Germany	503.5	612.7	.....	.....	307.2	343.4	.....	.....
Austria	309.3	264.7	.....	.....	155.1	221.1	.....	.....
Russia	209.6	237.3	.....	.....	33.5	60.9	.....	.....
Belgium	73.3	77.0	.....	.....	38.8	57.8	.....	.....
Total for world	3,111.7	3,645.6	13,091.2	14,101.6	1,866.9	2,511.6	3,308.5	2,483.5

^a Tentative return.

Another way of tabulating the imports and exports by countries is to show what percentage of the total trade of Italy was conducted with each country. The increases and decreases are not absolute but relative. Again, the ratio of the trade of 1917 to that of 1913, if ascertained for Italy as a whole and for each country trading with Italy, will show the countries with which Italy's trade grew more or less rapidly than the average, or than the total trade.

PERCENTAGE OF TOTAL TRADE OF ITALY CONDUCTED WITH SPECIFIC COUNTRIES
AND COMPARISON OF 1917 WITH 1913 TRADE ^{1/4}

Country	Percentage of total trade						Comparison 1917 trade with 1913, in volume	
	Imports			Exports			Imports	Exports
	1913	1917 ^a	1918 ^a	1913	1917 ^a	1918 ^a		
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>		
<i>Europe</i>								
<i>Belligerents:</i>								
Great Britain.....	16.2	15.5	14.8	10.4	14.6	22.5	3.66 times	1.86 times
France.....	7.5	7.1	7.3	9.2	28.6	36.2	3.50 "	3.84 "
Greece.....	.2	.2	.1	.7	2.8	4.4	2.78 "	5.13 "
<i>Neutrals:</i>								
Spain.....	.8	1.4	1.6	.7	1.3	1.2	6.80 "	2.32 "
Switzerland.....	2.4	1.7	1.1	9.9	18.5	11.4	2.88 "	2.42 "
<i>Mediterranean Countries</i>								
Egypt.....	.8	1.0	1.4	2.0	4.1	3.8	5.33 "	2.73 "
Tripoli.....	.1	.1	.1	3.1	1.9	1.6	2.60 "	.79 "
Tunis.....	.6	.2	.2	.5	.8	.7	1.41 "	2.14 "
<i>America and Asia</i>								
United States.....	14.3	42.6	44.2	10.7	7.4	5.1	11.42 "	.91 "
Argentina.....	4.5	5.7	10.6	7.4	5.8	4.0	4.83 "	1.03 "
Brazil.....	1.5	1.4	1.7	1.9	1.6	1.8	3.60 "	1.11 "
British India.....	4.0	10.7	8.3	2.0	2.4	1.3	10.30 "	1.61 "
<i>Blockaded or inaccessible</i>								
Germany.....	16.8	.....	.....	13.7	.....	.....	.....	.....
Austria.....	7.2	.....	.....	8.8	.....	.....	.....	.....
Russia.....	6.5	.....	.....	2.4	.....	.....	.....	.....
Belgium.....	2.1	.....	.....	2.5	.....	.....	.....	.....
Total for world...	100.0	100.0	100.0	100.0	100.0	100.0	3.88 times	1.32 times

^a Tentative return.

Those who oppose the idea of an economic boycott of the Teutonic Powers point to the fact that no less than 22.5 per cent of Italy's exports in 1913 were shipped to Germany and Austria, and that 24.0 per cent of her imports, mostly necessities, came from these two countries.

From the above table several important conclusions become apparent. Italian imports from Switzerland, Tripoli, and Tunis declined. Switzerland, being poor in natural resources, had to import the raw materials for her own population, and owing to the scarcity, was not able to supply either raw materials or goods manufactured therefrom to other countries. Imports from France and Great Britain remained practically constant. However, there were great increases of imports from the United States, British India, Spain, Egypt, and Argentina. Countries that were neutral

or were far removed from the base of military operations became the sources of raw material during the war.

The exports of Italy to oversea countries like the United States, Argentina, and Brazil declined. However, there was an increase of Italian exports to the warring countries of Europe, particularly France and Greece, and to a less extent to neighboring countries, like Switzerland and Spain.

THE BALANCE OF TRADE OF ITALY, CLASSIFIED BY COUNTRIES.

[Figures in million lire; 000,000 omitted. Excess of imports (-); excess of exports (+).]

Country	1909	1913	1917*	1918*
<i>Europe</i>				
Belligerents:				
Great Britain.....	- 332.7	- 331.3	- 1,681.3	- 1,630.4
France.....	- 130.4	- 51.0	- 80.4	- 124.2
Greece.....	+ 1.6	+ 10.4	+ 71.3	+ 83.3
Neutrals:				
Spain.....	- 22.0	- 10.9	- 155.2	- 200.6
Switzerland.....	+ 136.3	+ 162.4	+ 353.6	+ 127.8
<i>Mediterranean Countries</i>				
Egypt.....	+ 18.3	+ 21.6	- 7.6	- 96.9
Tripoli.....	+ 1.3	+ 73.5	+ 49.3	+ 30.5
Tunis.....	- 22.1	- 11.2	- 6.8	- 17.7
<i>Americas and Asia</i>				
United States.....	- 117.8	- 254.8	- 5,724.9	- 6,099.1
Argentina.....	+ 20.9	+ 19.0	- 612.6	- 1,394.5
Brazil.....	- 7.6	- 7.7	- 146.6	- 190.1
British India.....	- 64.5	- 96.6	- 1,423.3	- 1,131.6
<i>Blockaded or inaccessible</i>				
Germany.....	- 196.3	- 269.3	.....	.....
Austria.....	- 154.2	- 43.6	.....	.....
Russia.....	- 176.1	- 176.4	.....	.....
Belgium.....	- 34.5	- 19.2	.....	.....
Total for the world.....	- 1,244.8	- 1,134.0	- 10,682.7	- 11,618.1

* Tentative return.

These conclusions may be reached in an analysis of the Italian balance of trade with various countries. In comparing the figures for 1909, 1913, 1917 and 1918, we notice that during the war there was an increase in the excess of imports from the raw-material countries like Argentina, Brazil, British India, Egypt, and Spain, and from manufacturing countries like Great Britain and the United States. In the case of Egypt and Argentina, the Italian excess of exports in 1909 and 1913 declined and changed to an excess of imports, very marked from Argentina. Some countries, in the trade with which Italy always had an excess of imports, were heavily drawn upon during the war so that the

Italian excess of imports increased. This was true of Spain, Brazil, British India, Great Britain, and the United States.

On the other hand, even during the war the excess of exports to some countries increased, as to neighboring Switzerland, Greece, and Tripoli. In a somewhat similar position were those countries, as France and Tunis, the Italian excess of imports from which decreased.

(v) *Some Effects of the War—Development of Armament, Chemical and Automobile Industries*

1. In brief it might be said that the war expanded the industrial capacity of Italy, developed new lines of production, and hastened her general economic development. However, Italy suffered from certain limitations, particularly in the latter part of the war, such as lack of raw material and coal, shortage of labor, inadequate facilities for transportation, both on land and sea, a dislocation of foreign exchange rates, and Government regulation of commerce by licensing imports and exports.²

The war industries, which developed very largely since 1914, employed in 1918 about half a million persons. In this period their capacity was greatly increased—twelve-fold for cannon, thirty-fold for projectiles, and two hundred-fold for rifles. The Ansaldo Works near Genoa became one of the most important armament firms in the world in 1918. Plans have been prepared for a transition to peace conditions of approximately seventeen hundred munition plants all over Italy. The same development is to be noted in the chemical industry. Before the war the chemical industries of Germany supplied Italy with about 200,000,000 lire worth of chemicals, drugs, and dyes. The war had the effect of a prohibitive tariff and new plants were built at Castiglione, Piedmulera, and Cengio. The exportation of chemicals rose from about 78,000,000 lire in 1913 to 238,000,000 lire in 1917. Like Great Britain and France, Italy will protect her infant industries after the war. Another important industry which was greatly stimulated by the war was the manufacture of

² Supplement to *Commerce Reports* 8a, February 26, 1919.

automobiles. The exports of vehicles rose from 43,000,000 lire in 1913 to 144,000,000 lire in 1917. After Italy had been at war for two years there were in operation forty-three plants manufacturing automobiles and aeroplanes, the center of the industry being at Turin.

During the war pleasure cars were produced in diminished numbers; motor trucks of the one-and-a-half and three-ton types constituted the chief output of the automobile plants. Italy now holds second place among the automobile exporting countries of the world. Whereas in 1915 she exported in value about one-fifth as much as the United States, she has bettered her position and now exports about one-fourth as much. The following figures were issued by the Italian Ministry of Commerce, showing the position of the chief countries exporting automobiles:

VALUE OF AUTOMOBILE EXPORTS OF VARIOUS COUNTRIES.

[Figures in million lire: 000,000 omitted]

Countries	1915	1916	1917
United States.....	332.6	507.5	463.8
Italy.....	63.4	84.0	115.0
France.....	67.9	20.0	.....
Great Britain.....	33.2	3.7	27.8

The increase of exports was accompanied by a decline in imports. After the peace Italy ought to be able to find a ready market for her motor cars in Europe, the Near and Far East, and Mediterranean countries.

Socially, the effects on Italy have been similar to those on most other countries. The war withdrew men from the front, and put women into industry. At the Fiat automobile plant at Turin 33 per cent of the employees are women. Women have replaced men not only at clerical work and at the easier tasks in industry, but in the shop and factory where monotonous repetitive operations call for patience and deftness. The Ansaldo Works at Genoa, among the first to employ women on a large scale, had 50,000 in their service in the summer of 1916, and over 80,000 early in 1918. The solution of the after-war problem of women in industry is dependent upon many considerations,

such as the cost of living, the newly found freedom, the disability of the males in the family, the diminished prospects of marriage, and the fluctuations in the labor supply.

B. After-War Policies and Prospects

*(i) Italian Economic Policy After the War**

The war has awakened Italy industrially. It has removed German influence from industry and finance, and has set Italian economic life on a basis of its own. War-time developments have stimulated attempts to increase the industrial development of Italy, and to make Rome a thriving business city. The shortage of coal in Italy has fostered hydro-electric development. The efficient utilization of natural and human resources, the popularization of technical education, the increase of exports and the limitation of imports, the conclusion of favorable commercial treaties, the development of a merchant marine adequate to Italian commercial needs, and the creation of financial facilities for trade, all of these measures are essential parts of Italian after-war policy.

During 1917 a sort of reconstruction committee was organized to formulate a post-war policy. In addition to the official body, associations like "The Brothers of Italy," "The Consumers and Producers," and other groups of industrial and commercial interests organized and proposed programs of action and recommended legislation. Industrially, Italy is more fortunate than any of the belligerents, in so far as the labor supply is concerned. Before the war hundreds of thousands of her laborers emigrated. During the war this flow ceased and in spite of her losses in killed she has an adequate supply of labor, perhaps a greater supply than if the war had not taken place. This human asset endows the Italian after-war industrial program with a touch of

* Much of the descriptive matter on the effects of the war and on the after-war policy has been taken from the excellent article on Italy, the fourth in a series on the after-war problems of the European countries published in the New York *Evening Post* on Saturdays, May 25 to June 22, 1918.

reality which is lacking in that of some of the other countries on the continent.

Part of the scheme for the industrialization of Italy is the proposal to make Rome the industrial, commercial, and financial center. If "the destiny of Italy summons her to be the England of the South," Rome is to be her London. All sorts of measures have been recommended, such as the foundation of technical schools in Rome, the granting of factory sites, the extension of facilities for the municipal and railway authorities, the utilization of abundant water-power, of idle land and ample labor, and the reduction of the cost of living in Rome. It is even proposed to make Rome a seaport by building a deep-water canal fifteen miles long.

The more conservative economists view with skepticism any attempt to transform immediately an agricultural center into a commercial city; they advocate instead the establishment at Rome of a free zone like the free port of Hamburg or of Naples. This would constitute an inducement for manufacturing to center in the city.

The program of industrialization is the counterpart of a movement for the establishment of a self-sufficient Italy, "to prevent the country freed from the economic tutelage of Germany from falling under that of France or England."³ Italy fought the war not for the Allies, but for herself, and therefore she means to conduct her economic enterprise after the war independently of foreign patronage. The proposal for an economic entente of the Latin countries was considered impracticable because France and Spain are competitors of Italy in the same fields. Their needs are not reciprocal. The attempt to form closer connections with England has been obstructed by the high prices of British commodities, particularly coal.

The difficulties of exchange and the need for restricting imports have focused attention upon the annual payment of over 180,000,000 lire which Italy paid for British coal. Just as the war freed Italy from German economic domination, so the peace will find Italy determined to resist dependence upon any other coun-

³ Signor Paolo Orlando in the *Nuova Antologia*.

try. Italian hydro-electric power is to be substituted for British coal. "With our own electric plant we should at one blow strike off a double yoke; that of our servitude to Germany, and that of our dependence on England. The first is more perilous because political; but the second, because economic, is still extremely serious."⁴ During the war Italy's dependence upon foreign coal almost resulted in military disaster, and it was a serious impediment in the glass and earthenware industry. "Even before the war the electrical industry was the most highly developed in the country, more capital being sunk in it than in any other branch of Italian industries except railways. The hydro-electric power production had increased five-fold in seven years, and amounted to about a million horsepower in 1914. Italy has the greatest amount of accessible water-power per square mile of any nation in Europe." In Sardinia and in the lower peninsula work on the construction of great reservoirs has continued during the war with the object of supplying hydro-electric power, preventing floods, and irrigating summer crops.

To achieve her industrial development Italy will not only have to retain her migrating labor at home, but she will have to educate it technically. Indeed, it was the mechanical skill of the Italian workmen that made possible the manufacture of munitions, airplanes, and motor-cars. It is intended to utilize this undeveloped human resource for purposes of peace, and to substitute native Italian mechanics for imported German technical men. Schools are to be set up in various parts of the country to utilize the raw materials which formerly were exported to manufacturing countries like Belgium, Germany, France, and Great Britain. To quote Paolo Orlando again:

"When one realizes that in Italy only 5 per cent of human energy is expended in useful work, that only 15 per cent of the calories of coal are used, one is persuaded that Italy could increase its limited production by 100 per cent."

The development of industries and the utilization of the resources of the country are essential for righting its trade balance. Before the war the increase in foreign trade was notable, amount-

⁴ Signor Ezio Gray, "The Bloodless War."

ing to 118 per cent in the eighteen years from 1890 to 1907. This was 60 per cent more than the increase in the trade of England, and 25 per cent more than that of Germany. However, Italy always imported more than she exported before the war, and this feature of her trade developed to a dangerous extreme during the war. The excess of imports increased over 1000 per cent, and amounted in 1917 to twice the excess of imports of Great Britain in 1913. To restore the balance of exports and imports it will be necessary for Italy to rely less upon the gold sent to her by her nationals resident abroad and more upon merchandise exported and exchanged for imports. This kind of a balance involves more extended industrialization, and the utilization in local manufacture of available raw materials.

To achieve this end aid is expected from the Government. It is hoped that consular agents will be able not only to speak Italian but also to care for Italian interests, that a consistent export policy will be followed, and that the restrictions on exports will be entirely abolished. Furthermore, the Government has a commission at work to revise the tariff and to negotiate new commercial treaties. Italy's industries have been investigated by a tariff commission and it is likely that a bargaining tariff will be framed with concessions and penalties for securing favorable treatment and as a means of defense against discrimination. The commercial treaties in force at present are provisional and may be terminated at the end of any quarter-year as in the case of the treaty with France or at the end of the year as in the case of the treaties with Brazil, Japan, Roumania, Serbia, Spain, and Switzerland.

The development of commerce depends upon the fostering of industry, and both are related to the problem of supplying an adequate merchant marine. In spite of her long seacoast, far greater than Germany's, Italy ranks seventh among the maritime nations of the world. Her submarine losses reduced her tonnage considerably, and steps have been taken to restore the Italian merchant marine.

A Ministry of Land and Marine Transport, with a bureau for the merchant marine, was set up in June, 1916. At the end of

1916 a combination of the leading shipping interests, with a capital of over 100,000,000 lire, was formed to foster trade with South America. The Government has authorized the construction of a drydock at Naples which is to be the largest in the Mediterranean. The questions of ship mortgages, advances to ship builders, and subsidies to ship operators are being discussed.

Before the war Italian finance was under German control. The Banca Commerciale, a German institution established in 1895 and backed by the Bleichroeders, exerted a powerful influence, both financially and industrially. It fostered new enterprises (over a hundred and fifty companies), with a total capitalization of one and a third billion lire. It restored exports, which had been declining before its energizing influence was felt. Ninety-nine per cent of the electric power in the Province of Venetia was in the hands of interests allied with the Banca Commerciale. As a result of the war German influence was completely eliminated and closer financial connections with England formed. The Credito Italiano, in coöperation with Lloyd's Bank and the London County and Westminster Bank, founded the Compagnia Italo-Britannica of Milan with a capital of 10,000,000 lire to promote trade relations between Great Britain and Italy. Its counterpart was the British-Italian Corporation in London. It is hoped that the union of British and Italian financial interests will be as productive as Italians admit the Teutonic commercial alliance was.

(ii) *Italy's Economic Prospects*

There has been much discussion of an anti-Teutonic boycott. However, the sober economists point to the fact that about one-quarter of Italy's trade, both inward and outward, was transacted with the Germanic powers. Of the Italian exports of fresh vegetables in 1913, 69 per cent were sent to the Central Empires. About 200,000,000 lire worth of fruits and vegetables were shipped annually from Italy to Germany and Austria, in bulk, amounting to over half a million tons. Whether a boycott can be effective in the face of such profitable trade is very much of a

question. But propinquity leads to a development of mutual economic interests, and trade with Germany cannot be side-tracked except at Italy's loss. As an Italian merchant put it, "No matter how patriotic we are, if Germany can sell goods at one dollar, which cost two dollars elsewhere, Germany will get the business."

Can Italy dispense with the benefits that Germany conferred upon her before the war? Ferrero, the historian, said:

"Everything became Germanized, army, banks, railways, industry, commerce, science, philosophy, social theories, schools, and universities. The present generation in Italy has no thought to spare for anything but how to develop industrial machinery, how to increase salary, income, profits, and production, and to insure the progress of the country in accordance with a rudely quantitative conception of progress." Other writers see "a strange affinity between Italy and Germany."⁵ Others say, "Italy resembles Germany rather than England or France."⁶ An Englishman says:

"During the present century Germany has stood forth in the eyes of the people of Italy as the embodiment of all the essential characteristics by which world power is achieved. Italy stood bewildered at the thought that she would perhaps share this power and enjoy this wealth and prosperity."

In any survey of after-war prospects there is always prominent the question of the ability of Italy to dispense with the admittedly invigorating influence of Germany before the war, and in the disorganized state of international trade to impose any additional restrictions upon the fairly free flow of commerce as it existed before the war.

A limiting factor is the lack of raw materials. The Italian soil is exhausted after twenty-five centuries of continuous cultivation. Italian waters are full of coral, but lacking in fish. The agricultural products include specialties like almonds, oranges, olives, and figs, but staples like cereals, potatoes, and legumes

⁵ Jacques Bainville.

⁶ Sidney Low, "Italy in the War."

are insufficient. Italy must continue to be dependent upon foreign economic support whether it be German or some other.

Finally, the effects of the war have been very serious. "The war has upset the whole country, and is incapable of giving any tangible result proportional to the sacrifices it has cost."⁷

The burdens of the war include an addition of thirty billion lire of indebtedness, a greatly depreciated exchange, and a discrimination against the luxury trade, in Italian silks and art products, upon the part of Italy's customers. The additional territory which the peace conference has granted Italy may prove not a source of revenue, but like the German colonies in Africa, an expensive gratification of a national whim.

However, none of these difficulties are insuperable. In many of them she is not alone. She shares with Britain an increase in debt; with France a derangement of exchange, with Belgium a devastation of territory. Except for coal, iron, and potash, Germany's economic progress was built up on imported raw materials. Italy's future need therefore be no less bright than that of Germany in 1880. The great lesson of the economic rise of Germany, indeed the moral of the war, is that the real resources of a country are its citizens, its trained mechanics, its pioneering scientists. Italy has her leaders in science and industry. She needs but to promote education for the masses in order to multiply the sources of her national power. In her abundant labor lies her potential greatness.

⁷ Ferrero, "Revue des Nations Latines," January, 1918.

CHAPTER VII

JAPAN ¹

A. *Pre-War Conditions and the Effect of the War*

(i) *The Effect of the War in General*

Before proceeding to a consideration of Japanese commerce in its relation to the war, let us briefly summarize the effect of the war on Japanese economic life in general for the period January, 1914, to January, 1918. As in all other countries retail prices rose considerably. Company profits increased; dividends were large. Security prices rose. Railroad gross earnings increased. Imports rose rapidly, and exports increased more so. The specie reserve trebled and the note issue more than doubled. Postal savings deposits increased. The banks more than trebled their deposits, and slightly increased their capital. The public debt declined. The data given in the following tables illustrate these facts.

ECONOMIC EFFECT OF THE WAR ON JAPAN.²

[All amounts in million yen; 000,000 omitted]

RELATIVE RETAIL PRICE.

	Jan., 1914	Jan., 1918	Per cent. increase
Rice.....	164	202	23
Barley.....	160	276	75
Wheat.....	149	263	77
Sugar.....	229	263	15
Cotton yarn.....	144	372	158
For 50 leading commodities.....	130.18	227.27	75

¹ Some of this material has been presented in extended form in a valuable monograph, "Japan: Trade During the War," issued by the U. S. Tariff Commission.

² *London Economist*, August 3rd, 1918.

MISCELLANEOUS.

[All amounts in million yen; 000,000 omitted.]

	June 30, 1914	Jan. 31, 1918	Per cent. Increase
R. R. Gross Earnings:			
Government Roads.....	110	164	50
Foreign Trade:			
Exports.....	663	1,614	143
Imports.....	696	1,082	55
Balance.....	33	532	...
Note Issue.....	331	745	125
Specie Reserve.....	216	647	200
Postal Saving:			
Deposits.....	201	424	110
Bank Figures, Tokio:			
Capital.....	143	171	20
Deposits.....	439	1,337	204
Discounts.....	490	1,086	121
Public Debt.....	2,530	2,000	*21

* Decrease.

QUOTATIONS OF SECURITIES.

	Jan., 1914	Jan., 1918
Nippon Yusen Kaisha (shipping)....	116 yen	325 yen
Bank of Japan.....	502	770
Kanegafuchi Cotton Spinning Com- pany.....	105	252
Dai Nippon Brewery.....	86	145

DIVIDENDS IN 1917.

	Per cent.
Osaka Iron Works.....	25
Kobe Pier.....	30
Osaka Shosen Kaisha.....	50
Nippon Yusen Kaisha.....	50
Meiji Kaum.....	150
Several spinning companies.....	30-60

(ii) *The Increase in the Volume of Trade*

Comparing 1913 with 1918 we find that the total trade of Japan almost trebled during the war. Exports increased more rapidly, both relatively and absolutely, than imports. The result was that the trade balance changed from an excess of imports in 1913 to an excess of exports in 1918.^a

^a Annual Return of the Foreign Trade of the Empire of Japan, 1918.

FOREIGN TRADE OF JAPAN, 1910 TO 1918.

[Value in million yen; 000,000 omitted; 1 yen equals \$0.4985]

Year	Imports	Exports	Total Trade	Excess of Imports	Excess of Exports
1910.....	464.2	458.4	922.7	5.8	.....
1913.....	720.4	632.5	1,361.9	97.0	.....
1914.....	595.7	591.1	1,186.8	4.6	.....
1915.....	532.5	708.3	1,240.8	.....	175.9
1916.....	756.4	1,127.5	1,883.9	.....	371.0
1917.....	1,035.8	1,603.0	2,638.8	.....	567.2
1918.....	1,668.1	1,962.1	3,630.2	.....	294.0

RELATIVE VALUES BASED ON 100 FOR 1910.

Year	Imports	Exports	Total Trade
1910.....	100	100	100
1913.....	157	138	148
1914.....	129	129	129
1915.....	115	155	135
1916.....	163	246	204
1917.....	223	350	286
1918.....	359	428	394

(iii) *Changes in the Commodities of Foreign Trade*

Even before the war Japan was, to an increasing extent, becoming a manufacturing country. Imports of raw materials grew more rapidly than imports of manufactured goods. During the war this tendency became more pronounced. Raw-material imports in 1917 were 1.6 times those in 1913, and imports of partly manufactured goods 2.54 times the 1913 imports. On the other hand, imports of unmanufactured food, drink, and tobacco, were only 0.26 of the 1913 purchases, and completely manufactured goods 0.84. In other words, imports of raw materials and partly manufactured goods increased, but the imports of food and of completely manufactured goods decreased. In the export trade we also find evidences of the industrialization of Japan during the war. Between the years 1913 and 1917, the greatest increase was in exports of completely manufactured goods, which were 3.18

times as great. In raw materials, however, the increase was much less, being only 1.59 times as great as in 1913.

The following table shows Japan's foreign trade by groups of commodities for 1910 and for 1913 to 1917. The ratio of values in 1917 to those in 1913 is given for each group of the imports and exports.

VALUE OF IMPORTS.

[Figures in million yen; 000,000 omitted]

Year	Food, drink and tobacco, crude	Food, drink and tobacco, manufactured	Raw materials	Partly manufactured articles	Completely manufactured articles	Miscel- laneous	Total
1910.....	25.5	19.5	231.3	82.9	102.5	2.5	464.2
1913.....	77.5	43.1	353.5	126.9	124.0	4.3	729.4
1914.....	52.1	26.6	328.7	96.3	87.2	4.8	595.7
1915.....	20.0	18.1	339.8	98.4	51.5	4.6	532.5
1916.....	14.7	16.8	431.9	201.6	85.0	6.5	756.4
1917.....	20.3	16.6	564.6	322.5	103.7	8.2	1,035.8
Ratio of 1917 im- ports to 1913 im- ports....	0.26	0.38	1.60	2.54	0.84	....	1.42

VALUE OF EXPORTS.

1910.....	19.6	31.9	40.2	225.0	137.3	4.4	458.4
1913.....	24.7	35.5	51.3	328.1	184.9	6.0	639.5
1914.....	26.1	37.4	45.5	306.4	167.9	7.8	591.1
1915.....	37.4	42.7	45.4	323.4	242.9	16.5	708.3
1916.....	47.3	57.2	59.0	540.9	380.7	42.2	1,127.5
1917.....	73.5	96.7	81.5	725.6	588.2	35.6	1,603.0
Ratio of 1917 ex- ports to 1913 ex- ports....	2.98	2.63	1.59	2.71	3.18	....	2.53

That the war has increased the development of manufacturing in Japan is shown by the fact that in 1913 raw materials constituted 48.5 per cent of the imports, and in 1917, 54.5 per cent; partly manufactured articles constituted 17.4 per cent in 1913, and 31.1 per cent in 1917; and completely manufactured articles made up 17.0 per cent of the imports in 1913, and 10.0 per cent in 1917. In short, imports of raw materials increased; imports of manufactured goods decreased. The tendency to industrialization in Japan during the war is shown also by the changes in

the proportion of commodity groups of exports to the whole. In 1913 exports of raw materials were 8.1 per cent of the total, and in 1917 only 5.1 per cent. In 1913 partly manufactured articles constituted 51.9 per cent of the exports, and in 1917 only 45.3 per cent. On the other hand, completely manufactured articles made up a larger percentage of total exports in 1917 than in 1913, the figures being 36.7 per cent and 29.2 per cent respectively. That is, exports of raw materials decreased; exports of manufactured goods increased.

The following table shows the relative importance of the various groups of commodities in Japan's foreign trade for recent years:

IMPORTS.

Year	Food, drink, and tobacco, crude	Food, drink, and tobacco, manufactured	Raw materials	Partly manufactured articles	Completely manufactured articles	Miscel- laneous	Total
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
1910.....	5.5	4.2	49.8	17.8	22.1	0.6	100
1913.....	10.6	5.9	48.5	17.4	17.0	0.6	100
1914.....	8.7	4.5	55.2	16.2	14.6	0.8	100
1915.....	3.7	3.4	63.8	18.5	9.7	0.9	100
1916.....	1.9	2.2	57.1	26.6	11.3	0.9	100
1917.....	2.0	1.6	54.5	31.1	10.0	0.8	100

EXPORTS.

Year	Food, drink, and tobacco, crude	Food, drink, and tobacco, manufactured	Raw materials	Partly manufactured articles	Completely manufactured articles	Miscel- laneous	Total
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
1910.....	4.3	7.0	8.8	49.1	29.9	0.9	100
1913.....	3.9	5.9	8.1	51.9	29.2	1.0	100
1914.....	4.4	6.4	7.7	51.8	28.4	1.3	100
1915.....	5.2	6.0	6.4	45.8	34.3	2.3	100
1916.....	4.2	5.1	5.2	48.0	33.8	3.7	100
1917.....	4.6	6.1	5.1	45.3	36.7	2.2	100

A further subdivision of the commodities entering into the foreign trade of Japan reveals some interesting facts. The largest relative increase of imports was in the ores and metals group. In 1913 this group constituted about 10 per cent of the total imports, and in 1917 about 26 per cent. On the other hand, there was a considerable decrease in the percentage of total imports represented by grains and flours, beverages and tobacco, clocks, watches, and scientific instruments. These and other changes are shown in the following table:

RELATIVE DISTRIBUTION OF SPECIFIED ARTICLES OF IMPORT.

[Several groups omitted]

Groups	1913	1917
	<i>Per cent of total</i>	<i>Per cent of total</i>
Increases		
Ores and metals.....	9.96	25.53
Drugs, chemicals, etc.....	5.43	6.27
Minerals and manufactures.....	1.94	2.12
Yarns, threads, etc.....	37.21	39.67
Decreases		
Grains, flour and starches.....	10.86	2.67
Beverages and tobacco.....	6.09	1.82
Clocks, scientific instruments and machinery.....	7.00	4.55
Oils, fats and waxes.....	2.77	1.88
Dyes and pigments.....	1.56	0.90
Cloth, cotton, wool, etc.....	3.59	1.42
Total of all imports.....	100.00	100.00

An analysis of the relative importance of specified articles of export shows an increase for all manufactured goods and a decrease for most raw materials and goods entering into manufacture. The largest increase was in the exports of clocks, scientific instruments and machinery, which constituted 1.02 per cent of the total exports in 1913 and 7.35 per cent in 1917. The exports of metals rose from 4.98 per cent of the total in 1913 to 10.72 per cent in 1917. On the other hand, there was a considerable decline in the case of yarns, threads, and other textile raw materials.

RELATIVE DISTRIBUTION OF SPECIFIED ARTICLES OF EXPORT

[Several groups omitted]

EXPORTS.

Groups	1913	1917
	<i>Per cent of total</i>	<i>Per cent of total</i>
Increases:		
Clocks, scientific instruments and machinery.....	1.02	7.35
Ores and metals.....	4.98	10.72
Drugs, chemicals and medicines.....	3.81	4.11
Grains, starches and seeds.....	1.09	4.97
Decreases:		
Yarns, threads, etc.....	43.73	31.31
Minerals and manufactures.....	3.95	1.96
Total of all exports.....	100.00	100.00

A good summary of the industrial and commercial expansion of Japan was given by the German magazine, *Export*.⁴ Japan has developed with amazing rapidity from an agricultural to an industrial state, and now manufactures articles which were formerly the exclusive product of Europe. Many such products are now sent to Europe. Before the war Japan exported about 60,000 lead pencils; in 1916 she exported 144,000,000. Underwear and articles like bicycles, enameled vessels, mechanical goods and thermos bottles figure largely among her exports. The value of cotton stockings, glass, and glass articles sent to foreign markets has increased in three years by 2,000 per cent. Countless articles which before the war were made only in Europe, are now manufactured in Japan. She flooded Australia and India with matches. Because she can produce some of her goods more cheaply than Europe can, Japan has secured a permanent market for them. New industrial companies are being formed everywhere throughout the country.

"One of the leading corporations recently doubled its capital in order to undertake the manufacture of tools and machinery. Before the war Japan was absolutely dependent upon Europe for chemicals, but chemical factories have grown up like mushrooms and the Japanese industries can now supply large quantities of aniline salts, dyes, sulphuric acid, and similar products. The Japanese government has guaranteed a dividend of 8 per cent per annum for the next ten years to about eighty chemical manufacturers. In the textile industry dividends of 100 per cent have been declared by several companies. The government is encouraging the development of new industries. Every newly established smelting works obtains exemption from taxation for ten years. Japan is at the beginning of her industrial development. While she may not retain all of her gains in trade, she has secured a firm footing in many new markets."

The articles showing the largest increase in value of imports and exports in 1917 over 1916 are chiefly iron and textile products. Thus the imports of iron bars, plates, etc., rose from \$33,000,000 to \$83,000,000, and of raw cotton from \$138,000,000

⁴ November 19, 1918.

to \$165,000,000. Among the exports there was an increase in the value of raw silk in 1917 over 1916 of about \$44,000,000, and in cotton fabrics of about \$34,000,000.⁵ In spite of the fact that the United States imposed restrictions upon the importation of cotton cloth, paper, matches, porcelain, and glass, yet every one of these commodities was exported in greater volume by Japan. She found new markets to take these goods, as well as silk handkerchiefs, buttons, umbrellas, and mattings, all of which showed important gains during 1918.⁶

In the textile field the increase of exports of manufactured goods has been accompanied by a decrease in imports, and by an increase in imports of raw materials. For instance, imports of raw cotton rose from 32,000,000 yen to 274,000,000 yen from 1896 to 1916, but imports of manufactured thread declined from 11,000,000 yen to 253,000 yen. And exports of cotton yarn manufactured in Japan rose from 4,000,000 to 77,000,000 yen in the same period. There was also a remarkable increase in imports of raw wool, but a considerably smaller increase in imports of wool thread. The following table indicates the growth of leading lines of manufactures in Japan.⁷

[Value in million yen; 000,000 omitted]

Articles	1896	1903	1906	1912	1916
Imports:					
Raw cotton.....	32	68	81	198	274
Cotton thread.....	11	0.77	4	0.63	0.25
Wool.....	1	5	9	16	33
Wool thread.....	1	1	2	.....	1
Iron, pig, bars, wire and plates...	5.9	10	20	40	73
Exports:					
Cotton thread.....	4	31	35	53	77
Metal manufactures.....	.....	.....	3.8	3.2	16.5

As a result of the difficulty in importing iron during the war, Japan was under the necessity of developing her own iron industry. In order to do this the government extended privileges to companies that enlarged their plants. Works with an annual

⁵ Commercial Attaché Frank R. Rutter, Tokio, in *Commerce Reports*, February 10, 1918.

⁶ *Standard Trade Service*, December 24, 1918.

⁷ *Economiste Français*, Oct. 5, 1918.

output of over 5,000 tons are exempted from taxation for ten years, and any iron and steel plants whose annual output is over 35,000 tons may secure any land they require by condemnation proceedings. The domestic production of iron and steel was as follows:

Article	1914	1915	1916	1917
	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>	<i>Tons</i>
Pig iron.....	299,139	313,558	389,647	570,172
Plate and section iron.....	259,423	304,304	362,326	559,990
Castings.....	790	1,634	4,699	50,895
Alloys.....	2,223	2,253	3,817	17,473

The paint industry was practically created by the war. Prior to 1914 Japan had been buying quantities of paint and varnish in Europe. However, as a result of the demand from China, British India, and the countries in the southern Pacific, the manufacture and export of paints rose over 2,000 per cent from 1915 to 1918. In 1915 the value of these exports was 137,000 yen; in 1916 it rose to 236,000 yen; in 1917 to 505,000 yen; and by the middle of 1918 the value of paint exports amounted to 1,487,000 yen.⁸

The toy industry shows a similar record of progress. In 1907 exports of toys from Japan amounted to about \$395,000, and in 1917 to over \$4,200,000. For 1918 the figures were still higher. A large percentage of the toys exported from Japan are for the United States market, which bought \$1,910,000 in 1918 as compared with \$303,000 in 1913.

In the case of electrical goods there has been a similar expansion.⁹ In 1913 exports amounted to about 1,000,000 yen, and imports to about 12,000,000 yen. As the war went on the tendency was toward greater exports and smaller imports. In 1916 the exports were far greater than the imports, the exports amounting to 7,300,000 yen, and the imports to 4,100,000 yen. Before the war Japan produced only 10 per cent of the dynamos and motors in the larger sizes, all machines over 1,000 kilowatts capacity being imported; but she is now making machines with a capacity as high as 12,500 kilowatts. In addition to supplying

⁸ *Japan Advertiser*, Oct., 1918. ⁹ *Oriental Economist*, Aug., 1918.

her own needs, Japan has developed markets in China, India, and Asiatic Russia.

(iv) *Changes in the Currents of Foreign Trade*

During the war the direction of Japanese trade currents greatly changed. The outstanding feature was the shortening of trade routes. This was undoubtedly due to the enforced economy in the use of shipping resulting from the submarine warfare. A good deal of the transshipment trade of the Far East was eliminated, and Japan greatly increased her trade with countries bordering on the Pacific. The ocean was far from being a barrier between Japan and the Americas. Direct routes were established and trade by transshipment through Europe was discontinued. Absolute increases in the trade of Japan was greatest with the United States. China and India followed with smaller increases. Relatively, however, the greatest increases were with South America, South Africa, and Asiatic Russia. The nature of the change in the trade balance of Japan is of interest. In the trade with the United States there was in 1913 an excess of exports from Japan to the United States, and in 1918, there was an excess of imports. In other words, Japan drew heavily on the United States for raw materials. On the other hand, the trade of Japan with the great manufacturing countries, Great Britain and France, changed from an excess of imports to an excess of exports. That is, Japan manufactured goods for the European belligerents. The exception was Italy. The trade with this country showed an excess of exports in 1913, which declined in 1918 because Japanese ships were diverted to the trans-Pacific trade. In the case of the raw material countries, like Australia, Africa, South America, and the Philippines, Japan's trade changed from an excess of imports in 1913 to an excess of exports in 1918. This change was due to the fact that Japan supplanted the manufacturing countries of Europe, who before the war exported in large quantities to the industrially backward countries. The exception was Chile. In 1913 and in 1918 the trade of Japan had an excess of imports from Chile.

These and other changes are illustrated in the table.

THE FOREIGN TRADE OF JAPAN*
[In million yen; 000,000 omitted]

Country	Imports				Exports				Excess of imports (-) or exports (+)	
	1913	1917	1918	Ratio 1918:1913	1913	1917	1918	Ratio 1918:1913	1913	1918
Asia, Africa, Australia:				times				times		
China.....	61.2	133.3	281.7	4.59	154.7	318.4	359.2	2.32	+ 93.4	+ 77.5
British India.....	173.2	223.0	268.2	1.55	29.9	101.4	202.5	6.75	- 143.3	- 65.7
Asiatic Russia.....	0.8	3.8	4.4	5.52	4.3	74.2	40.1	9.38	+ 3.5	+ 35.7
Philippines.....	7.6	15.3	17.4	2.28	6.3	16.9	23.5	3.74	- 1.4	+ 0.1
Australia.....	14.9	32.9	48.0	3.27	8.6	27.3	65.1	7.52	- 6.3	+ 16.3
Africa.....	7.2	39.8	39.3	5.47	1.8	20.8	48.2	26.10	+ 5.3	+ 8.9
America:										
United States.....	122.4	359.7	626.0	5.12	184.5	478.5	530.1	2.87	+ 62.0	- 95.9
Argentina.....	a	3.1	8.8	1096.00	1.4	3.5	25.4	18.15	+ 1.4	+ 16.6
Brazil.....	a	0.06	0.1	....	a	0.5	3.4	....	a	+ 3.2
Total South America.....	2.8	14.5	20.9	7.50	1.7	7.6	36.6	21.90	- 1.1	+ 15.7
Europe:										
Great Britain.....	122.7	63.3	66.1	0.54	32.9	202.6	123.9	4.35	- 89.0	+ 76.8
France.....	5.8	4.4	3.7	0.64	60.2	97.8	122.2	2.36	+ 54.4	+ 138.5
Italy.....	1.1	0.4	0.6	0.57	20.4	18.0	11.6	.39	+ 28.3	+ 11.0
Germany.....	68.4	....	....	....	13.1	....	....	....	- 55.2	....
Grand total.....	720.4	1035.8	1668.1	....	632.5	1603.0	1962.1	....	- 97.0	+ 204.0

* From the Annual Return of Foreign Trade of Japan, 1918.

a Less than 100,000 yen.

It is worthy of note that only in the exports to Italy was there any shrinkage. However, the imports from Great Britain, France, and Italy declined in 1918.

The shifting of the distribution of Japanese trade by countries may be illustrated by a comparison of the percentages of the total Japanese trade which was carried on with any one country in 1913 and 1917. The United States in 1913 furnished about 17 per cent of the total imports of Japan, and in 1917 about 35 per cent. Imports from Australia rose slightly, while those from Asiatic countries remained fairly constant. The striking decline is in imports from Europe. In 1913 Japan received 30 per cent of her total imports from Europe, and in 1917 only 8 per cent. This condition was due to many causes, mainly the lack of a surplus in Europe for export and the scarcity of tonnage for the long sea voyage.

The following table shows the value of the import trade of Japan with the chief countries and the percentage each of these supplied in 1913 and 1917:

VALUE OF IMPORTS AND PER CENT. OF TOTAL, 1913 AND 1917.

[Values in million yen; 000,000 omitted]

Imported from	1913		1917	
	Value	Per cent of total imports	Value	Per cent of total imports
Asia:				
China.....	61.2	8.30	133.3	12.87
British India.....	173.2	23.74	223.0	21.62
Straits Settlements.....	5.2	.71	15.1	1.45
French Indo-China.....	24.7	3.38	7.3	.71
Dutch East Indies.....	37.4	5.13	17.3	1.67
Philippines.....	7.6	1.05	15.3	1.48
Total Asia.....	348.1	47.7	475.5	45.90
Europe:				
Great Britain.....	122.7	16.83	63.3	6.11
France.....	5.8	.80	4.4	.42
Germany.....	68.4	9.38	2.5	.24
Total Europe.....	220.2	30.21	82.2	7.93
America:				
United States.....	122.4	16.78	359.7	34.73
Total North and South America.....	127.0	17.41	376.8	36.40
Australia.....	14.9	2.05	32.0	3.18
Grand total.....	720.4	100.00	1035.8	100.00

An analysis of the exports of Japan for 1913 and 1917 shows but little change in the distribution by continents, and in many cases even by countries. However, in the case of Europe, while the total export trade constituted approximately the same percentage in 1913 and 1917, yet there were notable changes. The exports of Japan to Great Britain in 1913 constituted about 5 per cent of the total, and in 1917 about 13 per cent. On the other hand, Japanese exports to France constituted in 1913 about 10 per cent of the total Japanese export trade, and in 1917 about 6 per cent.

VALUE OF EXPORTS AND PER CENT OF TOTAL, 1913 AND 1917.
[Values in million yen; 000,000 omitted.]

Exported to	1913		1917	
	Value	Per cent. of total exports	Value	Per cent. of total exports
Asia:				
China.....	154.7	24.45	318.4	19.85
British India.....	29.9	4.72	101.4	6.32
Straits Settlements.....	10.1	1.60	28.0	1.75
French Indo-China.....	1.1	.17	3.8	.23
Dutch East Indies.....	5.1	.81	36.2	2.26
Philippine Islands.....	6.3	.99	16.9	1.05
Total Asia.....	275.9	43.62	704.1	43.92
Europe:				
Great Britain.....	32.9	5.20	202.6	12.64
France.....	60.2	9.52	97.8	6.10
Germany.....	13.1	2.08	.....	.....
Total Europe.....	147.2	23.28	335.2	20.91
America:				
United States.....	184.5	29.17	478.5	29.85
Total America.....	191.8	30.32	503.6	31.41
Australia.....	8.6	1.37	27.3	1.70
Grand total.....	632.5	100.00	1603.0	100.00

(a) *The Development of New Markets*

The nature of the change in Japanese commerce may best be illustrated by an analysis of the trade of Japan in newly developed markets. While the exports to China in 1917 were about 210 per cent of those in 1913, yet the number of commodities was considerably larger. In fact many Japanese commodities appeared for the first time on the Chinese market. The growth of exports to China in particular commodities is shown in the following table:

VALUE OF SPECIFIED EXPORTS TO CHINA, 1913 AND 1917.
[Figures in million yen; 000,000 omitted.]

Commodity	1913	1917
Gray sheetings and shirtings	7.3	27.7
White sheetings and shirtings .....	.2	4.1
T-Cloth	1.7	6.7
Cotton blankets .....	.1	1.0
Cotton flannels .....	.9	4.0
Cotton prints	0.0	4.8
Cotton bags	0.0	1.2
Wool blankets	0.0	.6
Woolen cloth and serges .....	.1	1.7
European print paper	1.2	4.8
Potteries .....	.8	2.7
Insulated electric wire .....	.1	1.3
Electric machinery .....	.3	.7
Telephones .....	.02	.2

* Insignificant.

The growth was as high as twenty-fold in the case of white sheetings and throughout the list ran considerably over the 210 per cent increase in the total value of Japanese exports to China.

A similar situation holds true for Japanese exports to British India. The growth of total Japanese exports to British India was about 675 per cent, but in particular commodities it was considerably higher, being about 3,000 per cent, in the case of gray sheetings, and about 7,000 per cent in the case of cotton blankets. Several Japanese products appeared for the first time on the Indian market, such as electric wire, window glass, and acetic acid.

The following table shows some of the important changes in the Japanese exports to India:

VALUE OF SPECIFIED EXPORTS TO BRITISH INDIA, 1913 AND 1917.
[Figures in million yen; 000,000 omitted.]

Commodity	1913	1917
Gray sheetings and shirtings .....	.4	10.2
White sheetings and shirtings .....	.2	.3
Cotton blankets .....	.0	.2
Potteries .....	.3	1.2
Electrical machinery .....	.01	.3
Insulated electric wire .....	.0	.5
Window glass .....	.0	.6
Acetic acid .....	.0	.4

In the Australian market Japan's export trade in general rose about three-fold from 1913 to 1917, but here also in many commodities the growth was more rapid. This is particularly true in the case of textiles, which before the war were imported from England. However, Japan has displaced not only England, but also Germany, which controlled the Australian market for porcelain and glassware. Japan is developing new markets in Australia for pianos and electrical goods.

Japan has also opened new fields for her exports on the American continents. The growth of Japanese exports to the United States from 1913 to 1917 was about 260 per cent, but surgical instruments, toys, matches, vegetable oils and other articles showed a much greater growth. In some cases Japanese commodities appeared for the first time on the American market. The following shows several important Japanese exports to the United States which have increased greatly during the war:

VALUE OF SPECIFIED EXPORTS TO UNITED STATES, 1913 AND 1917.
[Figures in million yen; 000,000 omitted.]

Commodity	1913	1917
Surgical instruments.....	..	.5
Potteries.....	3.1	4.9
Toys.....	.8	3.8
Matches.....	"	1.7
Bleaching powder.....	"	.9
Chloride of potash.....	"	1.1
Colza oil.....	"	2.6
Soya bean oil.....	"	1.2
Cocoonut oil.....	"	5.1
Cottonseed oil.....	"	.3

* Less than 100,000 yen.

Of the many novel developments in Japanese commerce during the war, perhaps the most striking is the huge increase in trade with the South American countries. Before the war Great Britain and Germany were the chief purchasers of the raw materials of the South American countries, as well as the main sources of their supply of manufactured goods. The blockade of Germany and the dislocation of British trade left gaps and deficiencies in the commerce of South America. As a result, Japan

began to supply the goods to South America that formerly came from Europe, and to buy the raw materials. Japanese emigrants were encouraged to settle in South America. A regular monthly steamship service was opened between Japan and the South American ports. The Toyo Kisen Kaisha, one of the largest steamship lines in Japan, organized a company to foster trade on a large scale between Japan and South America.

The growth of both exports and imports was progressive from 1915 through 1918. The extent of the growth of the trade with the three leading countries may be seen from the following table:

VALUE OF JAPANESE EXPORTS TO AND IMPORTS FROM SOUTH AMERICA.
[Figures in thousand yen; 000 omitted.]

Country	Exports			Imports		
	1913	1918	Growth	1913	1918	Growth
Argentina.....	1,423	25,376	<i>Per cent</i> 1,815	8	8,768	<i>Per cent</i> 109,600
Chile.....	131	4,705	3,600	2,773	11,261	405
Brazil.....	a	3,369	....	a	112	.....

a less than 1,000 yen.

The important exports of Japan to South America are mostly notions, fans, silk handkerchiefs, habutai, paper handkerchiefs, and fancy goods. Japan practically has a monopoly of the paper-napkin trade of the cafés of the River Plate. Other important exports are camphor, porcelain, tin goods, matches, toys, and cotton goods. The chief imports from South America are metals and coffee from Brazil, wool from the Argentine, nitrate of soda from Chile, and skin, tallow, and bones from various countries.

Japan sent many commercial delegations, official and unofficial, to South America for the purpose of promoting trade. But the efforts to establish trade connections are not all one-sided. Brazil has enlarged its consular service in Japan. Chile sent a commission representing the cotton producers to Japan to confer with the cotton spinners, so as to foster the trade in raw cotton. The Argentine wool producers have made inquiries in Japan to find

more purchasers for their wool. Peru has modified its export tax so as to encourage the export of sugar, cotton, copper, and lead. A Mexican steel works has sent samples and specifications to the Japanese commercial museum in the hope of increasing its sales to Japanese steel consumers. The Yokohama specie bank has opened offices at Buenos Aires to facilitate the financing of the newly developed trade.¹⁰

(v) An Analysis of the Trade in Important Commodities

The capture by the Japanese of markets formerly held by Germany, the displacement of Great Britain to some extent in the markets of the Far East, the development of new industries in Japan, these and other effects of the war are reflected in the trade of Japan in particular commodities. The three most important commodity groups are textiles, including yarns, threads, and cloth, which in 1917 constituted 41 per cent of the imports and 55 per cent of the exports; ores and metals, which made up in 1917 26 per cent of the imports and 11 per cent of the exports; and clocks, scientific instruments, and machinery, which in 1917 represented about 5 per cent of the imports and 7 per cent of the exports. Changes in these three groups, comprising 72 per cent of imports and 73 per cent of exports, are typical of the changes in the volume and the direction of whole trade.¹¹

(a) Textiles

(1) Imports of Cotton

Japan's imports of raw cotton have grown from 3,900 bales in 1880 to about 1,880,000 bales in 1917, the maximum being reached in 1916 when 2,230,000 bales were purchased. The first purchase of American cotton consisted of a sample bale imported in 1886. Since that date imports of American cotton have in-

¹⁰ *Japan Advertiser*, May, 1918, giving a summary of the Annual Report of the Department of Agriculture and Commerce.

¹¹ U. S. Tariff Commission, "Japan: Trade During the War," pages 66, 71, 79, 98, 104, 110, 111.

creased steadily; occasionally fluctuations are explained by the difference in prices of American and Indian cotton. Very little cotton is now grown in Japan. The maximum production reported was in 1887, 370,000 bales; the production in 1916 amounted to only 13,872 bales. The decrease is due to the greater profits obtained in the growing of crops other than cotton.

The following table shows the source of Japanese imports of raw cotton:

DISTRIBUTION BY COUNTRIES OF JAPANESE IMPORTS OF COTTON 1913-17.

Imported from	1913	1917
	<i>Per cent</i>	<i>Per cent</i>
China.....	7.07	9.24
British India.....	61.23	61.73
United States.....	27.49	25.41
Other countries.....	4.21	3.62
Total.....	100.00	100.00
Total value in million yen.....	233.6	331.0
Proportion of total imports.....	32.02	31.95

The chief sources of cotton imported into Japan in 1917 were the same as in 1913. The bulk of the Chinese cotton exports go to Japan. Chinese cotton, however, has a short staple, so that Japan imported from the United States cotton with a longer fiber and of a finer quality. If Japanese cotton manufacturers are to produce finer grades of yarns and piece goods, they will rely to a greater degree on American cotton.

(2) Imports of Wool

The Japanese woolen industry is dependent on foreign sources for its raw materials. The domestic production of wool is insignificant and probably will remain so. Before the war Japan obtained wool from Australia and Great Britain. During the first two years of the war imports from Great Britain were curtailed, whereas those from Australia, direct, increased, so that

in 1916 over 90 per cent of the wool came from that country. The imports from China, which in the period 1913 to 1915 rose from 2 per cent to 14.89 per cent of the total imports, declined in 1916 and 1917, owing to unfavorable rates of exchange. Owing to the restriction on the exportation of wool from Australia in 1917, Japanese imports from that country greatly declined; but the total imports increased in quantity as well as in value, Australia being replaced by South Africa and South America.

The increase of imports was due to the fact that the Far Eastern countries which had been dependent for their woolen yarns and cloths upon Great Britain and the United States were no longer able to obtain them from these sources and turned to Japan for woolen goods. Furthermore, the Russian Government had placed large orders for cloth in 1915.

The changes in the source of wool imported into Japan are shown in the following table:

DISTRIBUTION BY COUNTRIES OF JAPANESE IMPORTS OF WOOL, 1913 TO 1917.

Imported from	1913	1914	1915	1916	1917
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
China.....	2.00	8.99	14.89	5.95	2.29
Great Britain.....	45.50	34.74	4.55	1.67	0.87
Australia.....	49.98	54.93	78.40	92.15	33.95
Cape Colony and Natal.....	.....	.....	.....	.02	35.72
Rest of Africa.....	.....	.....	.....	.01	18.85
South America.....	.....	.....	.....	.....	8.00
Other countries.....	2.52	1.34	2.16	.20	.328
Total.....	100.00	100.00	100.00	100.00	100.00
Total value, thousand yen...	15,998	14,784	30,584	33,507	52,112

It is worthy of note that in the case of cotton the imports for the five years 1913 to 1917 were distributed in much the same way throughout, and the quantity fluctuated only about 25 per cent, while in the case of wool the distribution by countries changed very radically and the quantity imported rose from about 20,000,000 pounds to about 53,000,000 pounds. That is, the quantity of wool imported in 1917 was 2½ times as great as in 1913. The difference may be due to the fact that the

sources of cotton are fewer and that no such change in the trade therein was possible as in the case of wool. Furthermore, cotton even before the war moved directly between the producing countries, the United States and British India, and the consuming country, Japan. However, in the case of wool, Great Britain in 1913 transshipped much of the wool to Japan, whereas in 1917, Japan obtained her supply directly from the producing country.

(3) *Exports of Raw Silk*

Raw silk is the principal export commodity in the trade of Japan. It constituted about 30 per cent of the total exports in 1913 and about 22 per cent in 1917. The decline in percentage may be due partly to the fact that Japan manufactured silk goods, herself, to a greater extent than before the war. The changes in the distribution of exports are remarkable. Owing to the fact that Japan withheld her shipping from the Atlantic and Mediterranean trade, the exports of silk to France from the years 1913 to 1917 were almost cut in half. In the same period the exports to Italy declined from over 13 per cent to about one-third of one per cent of the whole. Japan concentrated her activities on the Pacific and the result was that exports to the United States rose from 67 per cent of the total exports of raw silk to over 86 per cent.

The proportion of raw silk exports taken by the various countries is shown in the following table:

DISTRIBUTION BY COUNTRIES OF JAPANESE EXPORTS OF RAW SILK, 1913-1917.

Exported to	1913	1914	1915	1916	1917
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
France.....	17.01	9.56	13.42	11.86	9.88
Italy.....	13.13	5.23	.14	"	.33
United States.....	66.65	83.31	83.77	83.92	86.21
Other countries.....	3.21	1.90	2.67	4.22	3.58
Total.....	100.00	100.00	100.00	100.00	100.00
Value in million yen.....	188.9	161.8	152.0	267.0	355.2

" insignificant

The exports in 1917 were about 1.28 times as great in quantity and 1.88 times as great in value as in 1913.

(4) *Exports of Cotton Cloth*

The exports of cotton cloth in the period 1913 to 1917, grew considerably, both in quantity and in value. The value in 1917 was 3.79 times as great as in 1913. Making allowance for a price increase estimated at about 42 per cent, the quantity exported was approximately 1.73 times as great. These figures cover the trade as a whole. In some cases, particularly to the Far East, the growth in exports was very much greater. Exports to British India increased 14.65 times, or from 1,032,000 yen to 15,121,000 yen, and to the Dutch East Indies 24.46 times, or from 233,000 yen to 5,701,000 yen.

The following table shows the proportionate distribution of cotton-cloth exports:

DISTRIBUTION BY COUNTRIES OF EXPORTS OF COTTON CLOTH

Exported to	1913	1916	1917
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
China.....	56.43	57.92	66.54
Kwantung.....	27.11	6.70	7.05
Hong Kong.....	3.40	2.42	2.08
British India.....	3.07	17.59	11.87
Dutch East Indies.....	.69	3.74	4.47
United States.....	.94	2.38	1.30
Other countries.....	8.36	9.25	6.69
Total.....	100.00	100.00	100.00
Value of total exports in thousand yen....	33,606	60,051	127,458

In 1914 and 1915 there was little change in the value of total exports or in the distribution by countries. These years are therefore omitted from the table.

The outstanding fact revealed by the above table is that Japan has greatly developed her Far Eastern markets for cotton goods. British India, Dutch East Indies, and China are the markets in which she now sells most of her cotton cloths, the last named taking two-thirds of Japan's exports in 1917.

How great a part Japan plays in the Chinese market for cotton cloths may be seen from an analysis of China's imports in recent years. Before the war China imported about one-half of her cotton goods from Great Britain, about one-fourth from Japan,

and about one-tenth from the United States. As a result of the war the distribution changed so that in 1917 Japan supplied about two-thirds of the Chinese demand for gray and white piece goods and England's share declined to about one-fourth. The United States was practically eliminated.

The following table shows the distribution of Chinese imports of the leading cotton cloths for the years 1902, 1913, and 1917. It is worthy of note, however, that the decline of British and American trade may be due in part to a decline in the total quantity of cloth imported. It may be that when normal shipping conditions are restored, the temporary disadvantage during the submarine campaign of the long ocean voyage, under which Great Britain suffered, may be removed.

DISTRIBUTION BY COUNTRIES OF CHINESE IMPORTS OF GRAY AND WHITE PIECE GOODS, 1902, 1913 AND 1917.

Imported from	1902	1913	1917
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Great Britain.....	51.30	49.45	26.09
Hong Kong.....	6.34	7.70	7.82
Japan.....	3.23	27.99	64.70
United States.....	31.13	10.67	.53
All other countries.....	8.00	4.19	.86
Total.....	100.00	100.00	100.00
Total number of pieces imported (ooo omitted).....	20,079	20,177	13,469

The control by Japan of the market for cotton goods extends not only to China, but also to the entire Far East. Simultaneously, with the advance of Japan, England declined as a factor in the Far Eastern market. From 1913 to 1916 Great Britain's exports of cotton piece goods to China declined from 574,000,000 yards to 299,000,000 yards; to British India from 3,067,000,000 yards to 1,935,000,000 yards; and to the Dutch East Indies from 304,000,000 yards to 257,000,000 yards. But Great Britain was not the only country whose trade fell off. Exports of cotton cloths from the United States to all Asiatic countries decreased from 126,000,000 yards to 33,000,000 yards from 1913 to 1917. The quantity of British exports to China declined 48 per cent, to

British India 37 per cent, and to the Dutch East Indies 16 per cent, whereas the quantity of the United States' exports of cotton cloth to all Asiatic countries declined 74 per cent. Whether these conditions are permanent or temporary remains to be seen.

(b) Ores and Metals

Ores and metals constitute the second most important group of commodities in the trade of Japan, not only because in 1917 this group took second place in the list of exports and imports, but because it grew more rapidly than any other since the year 1913. Of the total value of imports, ores and metals represented about 10 per cent in 1913 and about 26 per cent in 1917, and of the total exports this group constituted about 5 per cent in value in 1913 and about 11 per cent in 1917.

(1) Imports of Ores

Of the imports of ores and metals, iron and steel constitute the largest part. In 1913 the value of total imports in this group was 72,663,000 yen, of which iron and steel imports made up 80.30 per cent. In 1917 the value of total imports rose to 264,412,000 yen, but iron and steel imports rose proportionately and constituted 79.31 per cent of the total. The value of the non-ferrous ores and metals rose from 14,314,000 yen to 54,712,000 yen.

Ores, other than iron, represented about 17 per cent of the total ore imports in 1913, but in 1917 made up 86 per cent of the total. The value rose from 270,000 yen to 15,195,000 yen, or about 56 times. Iron ore, 1,585,000 yen, and antimony ore, 270,000 yen, made up the total ore imports in 1913, but in 1917 they were composed of the following: Iron, 2,460,000 yen; lead, 2,515,000 yen; zinc, 7,823,000 yen; antimony, 530,000 yen; and other ores, 4,327,000 yen; making a total of 17,655,000 yen.

The increase in the imports of ores was due to the demands of various Japanese industries. In the case of zinc, the metal itself was not obtainable abroad, and the zinc-refining industry was de-

veloped. The imports of antimony were small because domestic production greatly increased.

The interesting feature in the importation of ores is the fact that Japan drew upon the neighboring countries exclusively. Iron ore and lead ore were imported chiefly from China. Zinc was imported in the main from Australia and to a less extent from French Indo-China. British India and Asiatic Russia also figure as sources of Japanese imports of ores.

(2) Imports of Metals

Before the war the bulk of Japanese imports of iron and steel products came from Great Britain, Belgium, and Germany. During the war it was impossible for any one of these countries to supply the Japanese market and the result was that the United States furnished very much larger shares than before. Japan imported from the United States 0.22 per cent of her raw iron in 1913 and 14.16 per cent in 1917; 7.54 per cent of her rolled and cast iron in 1913 and 91.82 per cent in 1917; and 52 per cent of her finished iron in 1913 and 89.40 per cent in 1917. The total value of her imports of iron and steel products from the United States rose from 6,424,000 yen in 1913 to 164,497,000 yen in 1917, or 25.06 times, or about 80 per cent of Japan's total imports of iron and steel.

The change in the distribution of imports of raw iron, that is, pig iron, ferro-manganese, ingots and billets, etc., is shown herewith:

JAPANESE IMPORTS OF RAW IRON, 1913 AND 1917.

[Figures in thousand yen; 000 omitted.]

Imported from	1913		1917		Per cent increase (+) or decrease (-) 1913 to 1917
	Value	Per cent of total	Value	Per cent of total	
China.....	2,054	16.58	9,347	37.03	+ 355.06
Kwantung.....	....	....	4,573	18.12	....
British India.....	2,031	23.66	5,313	21.07	+ 81.44
Great Britain.....	4,786	38.64	1,388	5.50	- 71.00
Sweden.....	1,256	10.14	977	3.87	- 22.21
United States.....	27	0.22	3,574	14.16	+13,137.03
Other countries.....	1,332	10.76	61	0.25	- 95.42
Total.....	12,386	100.00	25,238	100.00	+ 103.76

The total quantity imported was 312,000 tons in 1913 and 263,000 tons in 1917, representing a decrease of 15.64 per cent. The decrease compelled the Japanese to develop their own iron industry, as was mentioned above.

A somewhat similar change may be noted in the distribution of imports of semi-finished products, which include in the Japanese classification rolled, cast, forged or drawn iron and steel, bars, rod, sheet or plate, wire bands and hoops. There was a decline in imports from all countries except the United States and China. China is regarded by Japan as her future source of iron ore and semi-finished products.

The following table shows the change in distribution of imports of semi-finished iron products:

DISTRIBUTION BY COUNTRIES OF IMPORTS OF SEMI-FINISHED IRON PRODUCTS
1913-1917.

[Values in thousand yen; 000 omitted.]

Imported from	1913		1917		Per cent increase (+) or decrease (-) 1913 to 1917
	Value	Per cent of total	Value	Per cent of total	
China.....	.....	.....	2,067	1.78	.....
Great Britain.....	17,433	47.89	6,403	3.84	63.27
Germany.....	11,293	31.02	2	.....	99.98
Sweden.....	800	2.20	1,841	1.11	130.13
United States.....	2,744	7.54	153,043	91.82	5,477.40
Other countries.....	4,134	11.35	2,417	1.45	41.54
Total.....	36,404	100.00	166,673	100.00	+ 357.84

A similar analysis of imports of finished goods, such as iron pipes, tubes, ribbon, rope and twisted wire, shows the elimination of Germany as a source of imports, a considerable reduction of imports from Great Britain, a doubling of imports from the United States, and a slight decrease in the imports from other countries.

As a result of the war the imports of metals, other than iron and steel, greatly increased in value, and except in zinc and nickel, in quantity also. Japan became the eastern workshop of the Allies and her expanded industries created a demand for all metals. The following table shows the imports of the more important metals;

IMPORTS OF METALS OTHER THAN IRON AND STEEL, 1913 AND 1917.

[Values in thousand yen; 000 omitted.]

Metal	1913	1917	Per cent increase (+) or decrease (-)
Aluminum.....	224	2,695	+ 1,103.12
Copper ingots and slabs.....	62	3,583	+ 5,679.03
Lead ingots and slabs.....	2,616	5,872	+ 124.42
Tin ingots and slabs.....	2,320	3,781	+ 62.97
Zinc ingots and slabs.....	1,566	1,764	+ 12.64
Nickel ingots and grains.....	1,421	1,032	- 27.38
Brass and bronze ingots and slabs.....	228	10,145	+ 4,349.56
Bismuth.....	....	251	....
Antimony.....	....	5,146	....
Others.....	5,522	5,248	- 4.96
Total.....	13,959	39,516	+ 183.09

(3) Ore and Metal Exports

Before the war, Japan exported copper metal in considerable quantity and to a less extent some products of brass and of iron. The only ore exported was zinc ore, which was shipped chiefly to Belgium; but since the establishment of zinc refineries in Japan, exports of zinc ore have declined. The world-wide search for the metals needed in the iron alloys used in the manufacture of munitions, brought about the development of Japanese exports of tungsten and manganese, 73 per cent of the manganese and 87 per cent of the tungsten exported being shipped to the United States.

The following table indicates some of the changes which have taken place in the exportation of ores and metals:

EXPORTS OF ORES AND METALS, 1913 AND 1917.

[Values in thousand yen; 000 omitted.]

Commodity	1913	1917	Per cent increase (+) or decrease (-)
Ores:			
Zinc.....	943	27	- 97.14
Tungsten.....	....	1,710	..
Manganese.....	....	588	....
Other ores.....	1	763	....
Metals:			
Iron:			
Bars, plates, sheets.....	....	5,023	....
Wire rope.....	....	3,634	....
Pipes and tubes.....	67	2,040	+ 2,944.78
Copper:			
Ingots and slabs.....	28,184	87,495	+ 210.44
Wire.....	182	4,378	+ 2,305.50
Brass, etc.:.....	468	8,441	+ 1,703.63
Brass, plates and sheets.....	213	18,769	+ 8,711.73
All other metals.....	1,397	39,006	+ 26.92
Total.....	31,455	171,874	+ 446.41

In contrast to her imports of ores, which Japan obtained chiefly from neighboring countries, her exports of metal were sent mainly to belligerent Europe. Comparing 1913 and 1917, the exports of copper declined in the case of China, the United States, and other countries.

The following table shows the proportionate distribution of exports of copper:

EXPORTS OF COPPER INGOTS AND SLABS, BY COUNTRIES, 1913 AND 1917

Country .	1913	1917
	<i>Per cent</i>	<i>Per cent</i>
China.....	33.35	7.27
Kwantung.....	.48	.13
British India.....	5.03	5.75
Asiatic Russia.....	a	13.62
Great Britain.....	18.48	35.02
France.....	14.03	25.37
United States.....	11.72	3.66
Other countries.....	16.91	9.18
Total.....	100.00	100.00
Total value in thousand yen....	28,184	87,495

a Insignificant

(c) Machinery

The group composed of clocks, watches, scientific instruments, firearms, vehicles, vessels, and machinery is the third most important group in the exports of Japan in 1917. It is a significant group in the imports because of the marked decline in the period from 1913 to 1917, and by contrast because of the seventeen-fold increase of exports in the same interval.

Before the war Japan imported most of her clocks and watches from Switzerland and from the United States. Since August, 1914, she has been importing relatively more from the United States. The total increase of imports is due to the greater purchasing power of the masses resulting from industrial prosperity. The exports of clocks have increased in value and instead of going chiefly to China and Hong Kong, as they did before the war, they are being more widely distributed, almost one-third being shipped to Great Britain.

The following table shows the changes in the imports and the exports of this group:

IMPORTS AND EXPORTS OF CLOCKS, INSTRUMENTS, MACHINERY, ETC., 1913 AND 1917.

[Values in thousand yen; 000 omitted.]

Articles	1913	1917	Percentage of increase (+) or decrease (-)
IMPORTS			
Clocks and watches.....	1,227	2,182	+ 77.83
Scientific instruments.....	2,665	2,037	- 23.57
Vehicles and vessels.....	10,388	13,071	+ 25.83
Machinery.....	36,762	29,838	- 18.84
Total.....	51,042	47,128	- 7.67
Percentage of total import trade.....	7.00	4.55	....
EXPORTS			
Clocks and watches.....	993	1,312	+ 32.12
Scientific instruments, etc.....	527	2,717	+ 415.56
Vehicles and vessels.....	2,406	104,522	+ 4,244.22
Machinery and parts.....	2,522	9,194	+ 264.55
Total.....	6,448	117,745	+ 1,796.07
Percentage of total export trade.....	1.02	7.35	

The imports of scientific instruments in 1913 were five times as great as the exports, but in 1917 they were almost the same, due chiefly to an increase of exports. Before the war the United States furnished 24 per cent of the total Japanese imports, the remainder coming from Germany and Great Britain, but in 1917 Japan imported almost 70 per cent of her scientific instruments from the United States. As in the case of clocks, scientific instruments, which prior to 1916 were shipped chiefly to the neighboring countries, China and British India, were in 1917 exported all over the world, to Great Britain, France, and the United States. Of all scientific instruments, the value of the exports in 1917 was greatest for surgical instruments, amounting to over 1,100,000 yen, but the greatest relative increase was recorded in the case of musical instruments, the exports of which in 1917 were over 13 times as great as in 1913.

In the imports of vehicles and vessels, the greatest increase was in automobiles and parts. These amounted to about 2,600,000 yen, or about one and three-tenths times as much as in 1913. The imports of bicycles and of steamships declined about 80 per cent. About 90 per cent of the automobiles come from

the United States. Railway equipment and steamships were obtained chiefly from Great Britain. Between 1913 and 1917, there was a forty-two-fold increase in vehicles and vessels, and a fifty-eight-fold increase in steam vessels alone. As with her other exports, Japan has expanded her markets so that not only China, but also Great Britain, France, and the United States have bought Japanese vessels.

In machinery and engines, imports have declined and exports have greatly increased. Both of these tendencies are an indication of the great industrial development caused by the war. As Japan acquires increasing supplies of iron ore and iron from Kwantung, she will be able to develop her exports in this field considerably.

B. After-War Policies and Prospects

(i) The Facts

The great increase in Japanese trade occurred in 1918 when the shortage in shipping was most acute. Japan's exports increased to all countries, except those in Europe. Comparing 1918 with 1917, the exports to South America increased five-fold, to Australia two-fold, and to South Africa three-fold.¹² Before the war Europe used to export about one billion dollars worth of goods to China, India, South Seas, and Australia. These countries have come to look to Japan for substitutes and Japan is capable of supplying these to the extent of about three hundred million dollars. There is still room for considerable development of Japanese trade in these fields. She will have an opportunity to consolidate her gains in the interval during which the exhausted belligerents repair their resources. Furthermore, Japan will be free from the heavy burdens of taxation which the belligerents will have to bear, and instead of suffering a loss of ocean tonnage, she has added considerably to her merchant fleet, as well as to her ship-building capacity.¹³

¹² *Journal of Commerce*, Feb. 19, 1919.

¹³ The *London Economist*, Mar. 24, 1917, quoting an article in *Jitsugyo-No-Nihon*, by T. Taketomi, ex-Minister of Finance.

The gains that Japan achieved during the war are likely to be permanent in those countries where she expanded her trade in commodities, of which she had the natural resources, the industrial tradition and skill, and special facilities, such as the manufacture of silk thread and cloth, pottery and glass, ores and metals, special paper goods, and sugar products. Furthermore, to the extent that she replaced Germany, her gains are likely to be permanent, particularly in the trade in chemicals, toys, buttons and fancy goods. Geographically, Japan is entrenched in the Far Eastern market for goods for which she has to import raw materials. She will probably retain her control of the Far Eastern market in cotton goods, steamships, drugs and chemicals, and woolen goods. In iron and steel products she is strengthening her position by taking Kwantung. She will probably retain her hold on the Chinese market for iron and steel goods. It is questionable, however, whether she will be able to hold the trade in commodities like machinery and electrical goods, for the production of which she has not the same peculiar facilities, material or otherwise. Furthermore, when the shipping shortage is relieved, the monopoly which Japan enjoyed during the war will be broken. In many cases the quantity, but not the value, of exports from Japan to the Far East remained the same, while the exports from Great Britain declined, owing to lack of cargo space. The general supremacy of Japan was the direct result of a war-time condition and probably is temporary. It is reasonably sure, however, that she will hold most of her gains in the Far East, and part of them in South America, Africa, and Australia. It is likewise fairly certain that she will continue to supplant Germany in commodities whose production depends upon imported raw material and an abundant labor supply.¹⁴

(ii) *Trade Policy*

To retain the favorable position acquired as the result of the war, the Japanese have discussed a wide range of policies. Of first importance is the need to improve the quality of merchan-

¹⁴ *Commerce Reports*, Oct. 26, 1918, page 359.

dise exported. A representative of the Japanese Department of Commerce in Australia reported complaints about shipments of goods inferior to the sample, poor packing, questionable trade practices, delay in shipment, and breach of contract. Premier Terauchi warned his countrymen that the great powers would bend all their efforts to regain the lost trade in the East and that it was up to the Japanese merchants to attain a high quality in their exports.¹⁵

To meet western competition the imitation of western methods is advocated. Mr. Taketomi, the ex-Minister of Finance, advises that industries be organized on a large scale after the pattern of the western powers. He points out that even Great Britain, the land of individualism, has put her factories under state control, and thus increased their efficiency and developed a greatly increased output.¹⁶

In order to retain the newly won markets and to develop further foreign trade, the Japanese Foreign Office intends to create thirty additional consulates, probably in China, Siberia, and the South Pacific chiefly, with a few additional ones in Europe and America.¹⁷ Because the Japanese anticipate intense competition from Europe in the attempt to regain the lost markets, many advocate that Japan redouble her efforts during the period in which Europe is recuperating from the devastation of the war.

"In Europe prices will not come down for the time being and wages may even go up. A considerable time will have to elapse before the wounds of war are healed and things restored to the pre-war condition. During this period it will be difficult for them to devote their entire energy to overseas trade. This is a most desirable chance for the Japanese business men to seize in order to exert themselves to the greatest advantage."¹⁸

During the war the Japanese sent out a great number of mis-

¹⁵ *New York Evening Post*—Survey of the War and International Trade.

¹⁶ "Business Japan," quoted in *Economist*, London, Mar. 24, 1917.

¹⁷ *The Japan Advertiser*, October, 1918.

¹⁸ *The Japan Chronicle*, article by T. Okamoto, quoted in *New York Journal of Commerce*, April 22, 1919.

sions, official and unofficial, to the various countries. Their object was to learn of the needs of countries that were rendered less accessible to European exporters because of the shortage in tonnage. One of these was the Japanese Economic Commission to Siberia. The commission made recommendations for the exchange of goods between the two countries. Siberia needed food and clothing, and Japan was ready to supply both. Cotton cloth, shoes, electrical supplies, and salt were greatly in demand. On the other hand, Japan needed the raw materials of which there was an abundance in Siberia, leather, hides, wool, furs, bristles, and match-sticks, and lumber. The only reported needs of Siberia that Japan would be unable to supply were engines, freight cars, and railway supplies. These, it was expected, would come from the United States. The investigations and conclusions of this commission are typical of the survey that Japan is making of available markets which she must find in order to maintain a dense population on a small area.

The question of raw materials appears to be basic. The character and volume of Japanese exports depend upon the availability of raw materials.

"It is out of the question for Japan to compete with Britain and the United States in the exportation of iron commodities. The goods in the sale of which Japan can compete with them are textiles, primarily, and in addition cheap manufactured goods. Japan's competitors will therefore be, not the United States, but Great Britain and France. However, if Japan secures a source of iron ore and develops her industries so as to produce machinery she may at some future time enter into competition with the United States."²⁰

In the opinion of the Japanese, the trade of the world will shift toward the Pacific. The countries bordering on the Pacific are the great raw-material producing countries of the world—Australia, with her minerals and live stock, South America, with her minerals and agricultural products; Mexico, rich in all resources; the United States, Canada, and China, all with boundless natural resources. The development of these will require capital

²⁰ Article by T. Okamoto quoted above.

and population, whose need for manufactured goods will create a market for the industrial exporting countries.

To prepare herself for the trade opportunities which development of these regions will create, Japan needs coal and iron. The entire known iron deposits of Japan are equal to the production for a single year of the Lake Superior iron ore district. To meet her increasing need for iron, Japan looks to China. The demand for Kwantung is a political expression of this economic fact. Japan already has 170 million tons of Chinese coal reserves partially under her control. Furthermore, the seizure of the German colonies in China turned over to Japan the Chinlingchen Mines, which the Japanese will draw upon to supply their government foundry at Yedamitsu with 120,000 tons of ore annually.²⁰

However, it is not alone as a source of raw material that Japan is interested in China. The millions inhabiting her broad expanse of territory form a natural market for Japan by reason of her proximity. Japan has certain advantages which no other nation enjoys. Furthermore, there is a close affinity between the tastes and habits of the people in the two countries. The articles produced in Japan for the home trade are the same as China uses, such as low-priced raincoats, straw hats, umbrellas, boots and shoes, handbags and trunks, cheap perfumery, toilet articles, and toys. In addition there are the great staples which before the way China obtained from Great Britain, such as textiles, metals, and ships. Japanese trade promotion in China must be prompt.

"China is beginning to awake and her industries will soon develop to such an extent that she will be able to manufacture herself those articles which she must now import from Japan. Before China becomes industrially self-sufficient it is necessary that Japanese industries should develop further, otherwise it will be impossible for Japan to maintain her present position in Chinese trade."²¹

To strengthen her commercial position in China, Japan is establishing numerous branches of her banks in Chinese ports. The

²⁰ New York *Evening Post* pamphlet reprint of articles appearing Saturdays, May 22 to June 22, 1918.

²¹ Article in *Japan Chronicle* by T. Okamoto.

Yokohama Specie Bank has imitated the lines of development of the British Trade Corporation. A new company similar thereto was recently established, the Home and Foreign Enterprise and Trust Company, Limited, the president and vice-president of which are appointed by the Governor. Indeed, Japan aims to supplant Great Britain as the banker of the Far East.

The economic policy of Japan has been publicly stated and in order for the western mind to understand it, it is essential to get the Japanese point of view. Count Terauchi, in an address to the new ministry in November, 1916, stated that "one thing necessary to the absolute independence of a state is its ability to supply its needs in raw materials. Only after this condition has been reached can a nation be called prosperous. Upon this principle we must build the economic development of Japan." In the same vein is the statement of Finance Minister Shoda in his budget speech, that the provision of raw materials for her own use constitutes Japan's chief after-war problem. This economic program merges insensibly into the larger political program of dominance in the Pacific. In an article on "An Oriental Economic Monroe Doctrine," Professor I. Kawada, of the Imperial University of Kyoto, said:

"Japan must confine her expansion in the Orient to the economic field, but in this field she must establish herself so firmly as to exclude other powers. To this end she must convert the Oriental world into one big self-supplying sphere independent of and impenetrable by the economic powers of the West, by exploiting the natural resources and establishing industries under the control of Orientals themselves assisted by the Japanese. The aim is to secure the independence of Oriental economics under the guidance and control of the Japanese Empire."²

Whether this policy means Asia for the Asiatics or Asia for the Japanese, is a question in which is involved the peace of the world.

² New York *Evening Post*, series of articles quoted above.

CHAPTER VIII

THE MINOR POWERS

A. Europe

(i) *Belligerents*

(a) *Russia*

Before the war Russia exported more than she imported, and her foreign trade was increasing rapidly. As a result of the war, exports declined very markedly and imports were fairly constant until 1916, during which year they increased over 100 per cent. The balance of trade changed to an excess of imports from the excess of exports which characterized Russian trade before the war.

FOREIGN TRADE OF RUSSIA
(Figures in million rubles; 000,000 omitted)
(At par one ruble = \$.5146)

Year	Imports	Exports	Balance
1911	1,161.7	1,591.4	+ 429.7
1912	1,171.8	1,518.9	+ 347.1
1913	1,374.0	1,520.1	+ 146.1
1914	1,098.0	956.1	- 141.9
1915	1,114.0	397.2	- 716.8
1916	2,750.0	575.0	- 2175.0

(Relative figures; 1911 values = 100.0 as a base)

1911	100.0	100.0	
1912	100.1	95.4	
1913	118.3	95.6	
1914	94.5	60.1	
1915	95.8	24.9	
1916	236.7	36.1	

The effects of the war were reflected also in the changes in the commodity groups of trade. The exports of food in 1916 were about one-fifth in value of those in 1913. The exports of raw and semi-manufactured articles declined about 50 per cent. The exports of live animals practically ceased. The exports of manufactured goods decreased but slightly, except in 1915. In 1913 the largest part of the exports was made up of articles of food, and in 1916 of raw and semi-manufactured articles. The imports of food in 1916 were less than in 1913. The imports of raw and semi-manufactured articles declined, but the imports of manufactured goods increased greatly. Articles of food constituted over one-half of the exports in 1913 and less than one-third in 1916, whereas raw and semi-manufactured articles represented about four-tenths of the total exports in 1913 and over six-tenths in 1916. Raw and semi-manufactured articles made up over one-half of the total imports in 1913 and about one-third in 1916, but manufactured goods constituted a little over a third in 1913 and much over a half in 1916. Russia depended upon foreign countries for her manufactures.

The war affected the origin of imports and the destination of exports. Germany and Austria were eliminated. The Netherlands, Denmark, Italy, and the East Indies decreased in significance in the import trade of Russia, either because they were inaccessible or because their supplies were scant, or because some of these countries were compelled to supply Germany in order to obtain much needed German coal and chemicals. The following countries increased in importance in the import trade of Russia: United States, Sweden, Finland, United Kingdom, Norway, France, China, and Switzerland. In 1913 the imports of Russia came chiefly from Germany (52.6 per cent) and to a less extent from the United Kingdom (13.9 per cent) and the United States (6.1 per cent). In 1916 they were more evenly distributed, 35.8 per cent coming from the United Kingdom, 24.7 per cent from the United States, and 12.4 per cent from Finland. The effect of the war on the exports of Russia was more striking. In 1916 they declined greatly, exports to the Netherlands and to Italy being about one one-hundredth of the 1913 values, to Norway

about a third, to Sweden about a half, to France and Great Britain about two-thirds. The exports of Russia to the United States remained practically the same in 1916 as in 1913.

Germany grew in importance as a source of supply for Russia prior to the war. While the imports into Russia from Germany rose from 35 per cent in 1900 up to 53 per cent in 1913, the imports from England declined from 19 per cent in 1900 to about 14 per cent in 1913. But these figures do not reveal the extent of the dependence of Russia upon Germany before the war. In a long list of commodities, Russia obtained from Germany over 95 per cent of her total imports. Germany supplied over 99 per cent of the imports of many commodities, such as rolling machines, embroidery machines, paper-making machines, electric vehicles, engravings, maps and atlases, gilt cutlery, iodine and bromine, alizarin oil, and potassium cyanide. The pre-eminent position of Germany in the Russian market was due in part to the favorable commercial treaty which was in effect before the war.

The Russian market has become disorganized and new trade relations will undoubtedly be formed when a stable government is restored. Germany's propinquity to Russia and her undoubted technical and trade facilities give her a unique position in Russian trade. However, unless the Allied Powers drive Germany and Russia into each other's arms, the relative position of Germany may be less favorable than before the war.

(b) *Belgium*

During the war Belgium did not publish any official returns of her foreign trade. However, the pre-war figures are given herewith, for they indicate not only the considerable volume of trade of Belgium, but also the very important position of Germany in it. From the beginning of the century the trade of Belgium grew very rapidly. Both imports and exports more than doubled, and the transit trade rose almost as much. Belgium had an increasing excess of imports before the war.

FOREIGN TRADE OF BELGIUM¹
 (Value in million francs; 000,000 omitted)
 (One franc at par = \$.193)

Year	Imports	Exports	Balance	Transit Trade
1901	2,221	1,828	-393	1,411
1910	4,265	3,407	-858	2,287
1913	5,050	3,716	-1,334	2,460

(Relative figures; 1901 values = 100 as a base)				
1901	100	100	....	100
1910	192	186	....	162
1913	227	203	....	174

There are few countries in which the transit trade is so large a proportion of imports and exports. The classification by commodities of the imports and exports of Belgium indicate the highly industrial character of the country. Food imports were large and food exports were relatively small. The imports of manufactured goods were about one-sixth of the total while the exports of manufactured goods were almost two-fifths of the total. In the transit trade, two-thirds of the total value was made up of manufactured goods.

Over 50 per cent of the import trade and over 70 per cent of the export trade was transacted with Belgium's four neighbors, France, Germany, Great Britain, and the Netherlands. Those next in importance were the overseas countries, the United States, Argentina, Russia, British India, and Australia. France was the chief source of imports, but Germany was Belgium's best customer. Great Britain took third place in imports as well as in exports. In her trade with most countries Belgium had an excess of imports. However, in her trade with Germany, Italy, Brazil, China, Turkey, and Japan her exports exceeded imports.

The value of the transit trade of Belgium constituted about 27 per cent of the combined imports and exports. Of this trade almost two-thirds in value consisted of manufactured goods and

¹ Special commerce covers imports for home consumption and exports of domestic goods. From the Tableau Générale du Commerce de la Belgique avec les Pays Etrangères, 1913.

only about one-fifth of raw materials. Of the transit trade entering Belgium in 1913, about 41 per cent came from Germany and about 23 per cent from France. Of the transit trade leaving Belgium, about 18 per cent was with Great Britain, 16 per cent with France, and 12 per cent with Germany.

(ii) *Neutrals*(a) *Denmark*

Before the war Danish commerce was growing very rapidly. The value of imports and exports in the year 1913 was 80 per cent greater than the average in the half decade 1901-5. The commodities traded in were chiefly agricultural products. Most of the business was done with Germany and Great Britain.

FOREIGN TRADE OF DENMARK¹
(Value in million kroner; 000,000 omitted)
At par one krone = \$.268

Year	Imports	Exports	Total trade	Balance
Average 1901-5	444.5	342.1	786.6	-102.4
1912	738.6	596.7	1,335.3	-141.9
1913	774.4	637.4	1,411.8	-137.0
1914	717.8	780.2	1,498.0	+ 62.4
1915	1,029.4	979.0	2,008.4	- 50.4
1916	1,249.6	1,177.3	2,426.9	- 72.3
1917	1,017.1	967.7	1,984.8	- 49.4

(Relative figures; 1901-5 average = 100 as a base)

Average 1901-5	100	100	100
1912	166	175	169
1913	174	186	180
1914	162	228	190
1915	232	287	254
1916	281	345	308
1917	230	283	252

¹ Danmarks Vareindførsel-Og-Udførsel, 1913-1917, Danmarks Handelsstatistiske Meddelelser-Vareomsætningen med Udlandet, October, 1918. Figures cover special commerce.

Prior to 1914 there was a decrease in the imports of food and an increase in the exports of food. The imports of raw materials increased and the exports decreased. The imports of fuel increased and the exports decreased. Apparently, the country was becoming a source of food supply and at the same time a manufacturing region.

Before the war over 50 per cent of the imports into Denmark came from Germany and the United Kingdom and over 75 per cent of the exports were shipped to these countries. Next in importance as sources of imports were the United States, Russia, and Sweden. The trade with the rest of the world was relatively unimportant. Denmark was increasingly coming under Germany's economic control. Trade with Germany increased while trade with other countries declined.

Much of the commerce of Denmark moved by way of Hamburg, because of its free port, the facilities for the transshipment of goods, preferential freight rates, large scale purchasing, and the abundance of credit for the carrying of consigned merchandise.

In general, the effect of the war on the commerce of Denmark was to increase greatly the volume of trade. Even the five months of war in 1914 left a very marked impression. There was a slight decline in the value of imports and a very considerable increase in the value of exports. The imports of food declined, but the exports increased. The imports of raw materials increased and the exports decreased. Denmark became a source of supply for the belligerent countries. The characteristic pre-war excess of imports was changed into an excess of exports as a result of five months of wartime trade. There was a great increase in imports from the United Kingdom and a marked decrease in imports from Germany. On the other hand, exports to Germany increased considerably while exports to the United Kingdom declined.

During the war, trade with Norway and Sweden rose considerably. As the blockade tightened, Denmark was forced to confine her trade increasingly to the other Scandinavian countries. On the other hand, trade with Germany and Great Britain declined

during 1917. Imports from the United States and Argentina were much greater in 1917 than in 1913, owing probably to the elimination of this trade via Hamburg. The re-export of foreign merchandise almost doubled from 1914 to 1916. Copenhagen became a transshipment center.

The official monthly summary of the foreign commerce of Denmark for October, 1918, gives the quantity or weight of exports and imports for the years 1913 to 1918. Without exception of any importance there was a decrease of both exports and imports during 1918 and in many cases during 1917, as a result of the tightening of the blockade. Up to 1916 there was an increase of imports and of exports of many food products. The exports to Germany in 1915 and 1916 were greater than the pre-war figures, but declined sharply during 1917 and 1918. Exports of food products to Great Britain practically ceased after 1915. For example, the exports of bacon declined from 100,870 metric tons in ten months of 1913 to 2,490 metric tons in the corresponding period of 1918. The imports of unground corn declined from 365,140 metric tons in ten months of 1913, to 2,630 tons in the corresponding period of 1918.

The restriction of imports resulted in a depletion of stocks and the use of substitutes. Peat and wood were used instead of coal, and electricity generated in Sweden was transmitted by cable to Denmark both for light and power. The use of petroleum and its products was restricted. The shortage of raw materials resulted in the closing of many factories and the inadequate maintenance of machinery and equipment.

To prevent prices from rising and to aid in the maintenance of industry the government controlled output and prices, and imports and exports.

The elimination of Hamburg as a point of transshipment threw a burden upon Copenhagen. During the four years of war it became possible for Denmark to establish trade connections with the other Baltic countries so that the position of Copenhagen as a market for imported goods and as a point of transshipment is considerably improved. Before the war Hamburg distributed to the Scandinavian countries goods which were exported from the

United States. During the war the current was reversed and the Scandinavian countries transshipped to Germany products from overseas countries. Furthermore, supplies from both England and the United States consigned to Russia were sent by way of Scandinavian ports and railroad centers. As the German ports declined in activity, the Scandinavian ports assumed increased importance.

(b) *Norway*

Before the war Norway's imports exceeded her exports. During the war imports increased about 50 per cent in weight and about 250 per cent in value. Exports declined about 8 per cent in weight and increased in value about 250 per cent.

FOREIGN TRADE OF NORWAY¹
(Values in million kroner; 000,000 omitted)
(At par one krone = \$.268)

Year	Imports	Exports	Excess of Imports
1910	402.1	282.6	119.5
1913	552.3	392.6	159.7
1914	567.3	410.0	157.3
1915	868.0	676.8	191.2
1916	1353.7	988.3	365.4

(Relative figures; values of 1910 = 100 as a base)

Year	Imports	Exports	Excess of Imports
1910	100	100	100
1913	137	139	134
1914	141	145	132
1915	208	239	160
1916	336	350	306

Both imports and exports declined in bulk. Furthermore, prices rose considerably. For instance, coal in 1916 cost 3.69 times as much as before the war and beef 2.68 times as much. The excess of imports, which was 365,400,000 kroners in 1916, was balanced by shipping profits, which in 1910 were about

¹Norges Handel, 1913 to 1916, det Statistiske Centralbyraa.

120,000,000 kroner, in 1913 about 220,000,000 kroner, in 1915 475,000,000 kroner, and in 1916 1,063,000,000 kroner.⁴

In the imports of food there was a decrease from 27 per cent of the total in 1913 to 21 per cent in 1916. Imports of articles of consumption such as clothing, household goods, books, and objects of art, also decreased. On the other hand, there was an increase of imports of raw materials from 38 to about 45 per cent. Total imports of goods for consumption declined from 46 to 36 per cent and total imports of goods for manufacture rose from 54 to 64 per cent.

The trade of Norway even before the war was confined to a few countries. In 1913 over 40 per cent of her export trade and almost 60 per cent of her import trade was carried on with Germany and the United Kingdom combined. As the war progressed the United States took an increasingly prominent place and displaced Germany in the import trade. However, the exports to Germany and Great Britain increased from 42 per cent in 1913 to 57 per cent in 1915. In general the exports of Norway to the belligerents and to the Far Eastern countries increased. Norway's imports were not widely distributed. In 1913 58 per cent of the total came from Germany and the United Kingdom. As a result of the blockade, the available imports from Germany decreased and Norway obtained directly from overseas many of the products which before the war were obtained through Hamburg. The imports from Spain in 1916 were 9.9 times as great as in 1913, from the United States 8.6 times, from Argentina 5.8 times, from Brazil 4.4 times, and from British India 3.8 times. Norway became independent of the German transshipment trade and became an intermediary between belligerent Germany and the rest of the world.

The restriction of the imports of raw materials reduced industrial activity. The sale of finished products was rationed. Substitutes were resorted to. Maximum prices were fixed and government control greatly extended.

⁴ *Stavanger Aftenblad*, June 14, 1918.

(c) *Sweden*

For several years before the war exports were growing more rapidly than imports. As a result of the war this tendency was emphasized and the excess of imports was changed to an excess of exports.

FOREIGN TRADE OF SWEDEN^{*}
(Values in million kroner; 000,000 omitted)
(At par one krone = \$.268)

Year	Imports	Exports	Total	Balance
Average 1901-10	583.0	462.9	1,045.9	-120.1
1913	846.5	817.3	1,663.8	- 29.2
1914	726.9	772.4	1,499.3	+ 45.4
1915	1,142.5	1,316.4	2,458.9	+173.9
1916	1,138.6	1,556.4	2,695.0	+417.8

(Relative figures; 1913 values = 100 as a base)

Average 1901-10	69	57	63	....
1913	100	100	100	....
1914	86	95	90	....
1915	135	161	148	....
1916	134	190	162	....

The exports of merchandise for consumption increased from 23 per cent in 1913 to 29 per cent in 1915, but declined to 24 per cent in 1916. The exports of merchandise for further manufacture declined from 77 per cent in 1913 to 71 per cent in 1915, but increased to 76 per cent in 1916. However, the exports of raw materials declined continuously during the war. The imports of raw materials increased and the imports for consumption decreased. Sweden became one of the workshops of the belligerents.

Before the war Sweden obtained about 86 per cent of her imports from Europe and about 14 per cent from non-European

^{*} Sveriges Officiella Statistik Handel Berättelse för År 1913, 1916. The figures cover special commerce, imports for domestic consumption, and exports of domestic production.

countries. In 1915, however, Sweden was able to obtain only 60 per cent of her imports from Europe. This result was partly due to the fact that Sweden obtained directly from overseas a large amount of imports which before the war were credited to the European countries that transshipped overseas goods. In addition the non-European countries had a larger surplus to spare than Europe, which was so largely involved in the war. Exports showed the opposite tendency. The exports to Europe rose from 87 per cent in 1912 to 94 per cent in 1915. In 1912 and 1913 Sweden obtained 59 per cent of her total imports from two countries, Germany and the United Kingdom, but only 40 per cent in 1915. The import trade of Sweden was decentralized and her dependence upon these two countries lessened. There was an increase of imports from the neighboring countries, Norway and Denmark, with which Sweden formed an economic unit.

The restrictions on trade during the war resulted in a shortage of goods, control of industry by the state, the development of substitutes, and the introduction of the compensation trade treaty, or the exchange of indispensable goods. The lack of coal and the abundance of water power led to the development of electro-metallurgy. The textile-substitute industries were established. Wood and artificial leather were substituted for leather. In the electrical industry copper was replaced by iron and zinc.

The development of direct trade with the overseas countries has led to the proposal to establish a free port at Stockholm to replace Hamburg as an entrepôt for the distribution of merchandise in the Baltic states. Facilities for the free storage of goods and the utilization of the warehouses in the free port would be extended to overseas merchants. During the war Sweden was in constant communication with Germany and the decline in mark exchange affected Swedish industry adversely. When the rate for marks fell and the German manufacturer exported at approximately his old price in marks his Swedish competitor was unable to meet the price. For instance, a standard model of piano imported from Germany cost 1,048 kroners before the war and a similar Swedish piano cost 908 kroners. As a result of the depreciation of the mark the German piano, after paying

freight and duty of 150 kroners, was sold in Sweden for 718 kroners. German hooks which cost 2.42 kroners per gross before the war sold in Sweden at 1.61 kroners during the war. A group of Swedish merchants petitioned the government for special tariff protection until exchange rates were again stabilized.

(d) *Netherlands*

Netherlands was one of the few countries which though not actually engaged in the war, suffered a severe decline in trade. Unlike Switzerland, Netherlands was dependent upon sea-borne commerce and was therefore seriously affected by the blockade.

FOREIGN TRADE OF NETHERLANDS^a
(Figures in million guilders; 000,000 omitted)
(At par one guilder = \$.402)

Year	Imports	Exports	Balance
1910	3,265	2,632	-633
1913	3,918	3,083	-835
1914	2,889	2,505	-384
1915	2,111	1,749	-362
1917	708	512	-286
1918	458	156	-302

(Relative figures. 1910 values = 100 as a base)			
1910	100	100	....
1913	120	107	....
1914	88	95	....
1915	65	66	....
1917	24	20	....
1918	14	6	....

The figures are all the more remarkable in view of the fact that prices rose considerably during the war and that therefore the decline in the tonnage of trade was much greater than the decline in value.

Netherlands did a very large transit trade which amounted to in bulk over 25 per cent of the tonnage of imports. However, as

^a Statistiek van den In- uit- en Doorvoer, 1913, 1915. Figures cover special commerce only.

a result of the blockade the transit trade of 1915 was only 48 per cent as great as in 1911. The transit trade is divided into "through trade" (without reloading), and transshipment trade (with reloading). The "through trade" in 1915 was only 30 per cent as great as in 1911, but the transshipment trade in 1915 was 1.48 times as great as in 1911. In 1915 there was a decrease of the tonnage of transit goods originating in Germany, Great Britain, and the Far East. On the other hand, there was an increase in the transit trade in goods originating in Norway (seventy fold), Sweden, United States, and the River Plate.

The stringency of the blockade greatly reduced imports into the Netherlands. Taking the tonnage of imports in 1913 as 100, or the base of our calculation, the imports of various commodities were as follows:

Imports	1913	1915	1918
Barley	100	12	0.3
Maize	100	110	0.6
Wheat	100	30	2.0
Tea	100	103	0.3
Cotton	100	115	0.3
Petroleum	100	97	5.0
Fuel	100	51	92.0

Similarly the exports of most commodities show a very striking decline from the 1913 figures:

Exports	1913	1915	1918
Potato Flour	100	104	0.01
Butter	100	114	7.0
Veal	100	113	0.1
Herring	100	111	0.7
Coffee	100	182	0.0
Amer. tobacco	100	123	410.0

Before the blockade was put into effect there was a relative increase of imports from Great Britain, Brazil, Argentina, the United States, Dutch East Indies, and Sweden. Relatively, the exports to France, Norway, the United States, Argentina, Dutch

East Indies, Sweden, and Great Britain increased. After the blockade was put into effect, the imports from the Allies declined in 1918 to about one-seventh of the 1917 figures and imports from the Central Powers almost doubled. Of the exports the percentage taken by the Allies and the Central Powers was about the same in 1918 as in 1917.

The effect of the war, as in other countries, was to increase prices, to deplete stocks, to cause the stoppage of work, and to centralize the control of industry and trade in the hands of the government.

(e) *Spain*

During the war the imports of Spain declined and, except during 1918, the exports rose above the pre-war level.

FOREIGN TRADE OF SPAIN⁷
(Figures in million pesetas; 000,000 omitted)
(At par one peseta = \$.193)

Year	Imports	Exports	Balance
1913	1,306	1,058	-248
1916	913	1,361	+448
1917	734	1,311	+577
1918	576	938	+362

(Relative figures; 1913 values = 100 as a base)

1913	100	100	....
1916	70	129	....
1917	56	124	....
1918	44	89	....

As a result of the increase of exports, the balance of trade changed from an excess of imports to an excess of exports. As in the case of other neutrals, the imports of raw materials in-

⁷ Estadística General de Comercio Exterior de España, 1913, 1916 Resúmenes Mensuales de la Estadística del Comercio Exterior de España, Dec., 1918. Figures cover special commerce only, that is imports for domestic consumption and exports of domestic production.

creased and the imports of manufactures decreased. In 1913, raw materials constituted 39.8 per cent of imports and in 1918, 47.9 per cent. Manufactured goods constituted 37.0 per cent of imports in 1913 and 28.7 per cent in 1918. The export figures illustrate the same condition. The exports of raw materials declined from 31.5 per cent in 1913 to 19.1 per cent in 1918. The exports of manufactured goods increased from 23.7 per cent in 1913 to 44.8 per cent in 1918. Spain became one of the workshops of the Allies. On the whole the trade in food, particularly exports, declined.

The currents of trade were greatly affected by the war. There was an increase of imports from the United States from 167,000,000 pesetas in 1913 to 454,000,000 in 1916. The United States took first place as a source of Spanish imports, displacing England from 1915 onward. There was an increase of imports also from Great Britain, Sweden, Switzerland, Egypt, and Japan. There was a great decrease of imports from the belligerents, Russia, France, and Italy, and from the neutrals, Holland, Denmark, Norway, and Argentina.

There was a great increase in exports to the belligerents, Russia, France, Italy, and Great Britain, to the neutrals in Europe, Norway, Sweden, Denmark, and to the nearby countries, Egypt and Morocco. There was a decrease of exports to Brazil and Chile and to Holland and Switzerland.

The war has enhanced the commercial prestige of Spain. The blockade of Germany reduced the transshipment business in Europe, and Spain took advantage of the opportunity to establish a free port at Cadiz, which apparently is to be followed by the establishment of free ports at other centers.

(f) *Switzerland*

The trade of Switzerland flourished during the war. Imports rose almost 40 per cent and at the highest level exports rose over 100 per cent. The excess of imports was reduced below the pre-war figures.

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FOREIGN TRADE OF SWITZERLAND^a
 (Figures in million francs; 000,000 omitted)
 (At par one franc = \$.193)

Year	Imports	Exports	Balance
1910	1,745.0	1,195.9	-549.1
1913	1,919.8	1,376.4	-543.4
1914	1,478.4	1,186.9	-291.5
1915	1,680.0	1,670.1	- 9.9
1916	2,378.5	2,447.7	+ 69.2
1917	2,405.1	2,323.0	- 82.1

(Relative figures; 1910 values = 100 as a basis)

1910	100	100	....
1913	110	115	....
1914	85	99	....
1915	96	140	....
1916	136	205	....
1917	138	186	....

The classification of foreign commerce by commodities presents a picture similar to that of most of the neutrals of the world. Switzerland worked for the belligerents and therefore imported more raw material and exported more manufactured goods. The trade in food declined. The imports of raw materials rose from 35.7 per cent in 1913 to 45.9 per cent in 1917. Imports of manufactures declined from 33.0 per cent in 1913 to 27.3 per cent in 1917. On the other hand, the exports of manufactures rose from 74.3 per cent to 80.7 per cent in the same years. The imports of food declined from 31.3 per cent to 26.8 per cent and the exports declined from 14.6 per cent to 8.5 per cent in the same years.

The source of imports changed greatly. Switzerland obtained less goods in Europe and more from overseas countries. The United States rose from fourth to second place. Germany still retained first place. However, in 1913 Swiss imports from Germany were over six times as great as those from the United

^a Annuaire Statistique du Commerce de la Suisse avec l'Étranger en 1917. Figures cover special commerce.

States, and in 1917 only 5 per cent greater than from the United States. There was an increase in imports from Great Britain, Italy, and Spain, from the United States and Argentina, and from the three continents, Asia, Africa, and Australia. There was a decrease in imports from Germany, Austria, France, Belgium, Russia, and Holland. Most of belligerent Europe could spare no goods for Switzerland. Furthermore, Switzerland traded directly with countries whose products she formerly obtained through Germany or France.

There was an increase of exports to Germany, Austria, France, Holland, Italy, Great Britain, and Spain. There was a decrease of exports to the United States, Argentina, and the countries in Asia. In general, Switzerland decreased her imports from the European belligerents and increased her exports to them, but increased her imports from the non-European countries and decreased her exports to them.

A very important part of the foreign trade of Switzerland is the *trafic de perfectionement*, *veredelungsverkehr*, or improvement trade. The so-called active improvement trade consists of the improvement of foreign goods in Switzerland and the return thereof to the country of origin or the reexport thereof to another country. For instance, Switzerland would carry on one or more processes on goods manufactured abroad. In Switzerland, goods might be washed, singed, bleached, steamed, laundered, dried, mercerized, polished, impregnated, wound, boiled, sharpened, mounted, plated, oxidized, decorated, engraved, dyed, perforated, fitted, assembled, regulated, etc. The so-called passive improvement trade covers the free importation of goods improved or finished abroad and returned to Switzerland.

In the tonnage of the active improvement trade there was a very great decrease, from over 45,000 quintals in 1913 to 7,000 quintals in 1917 (one quintal equals 220 pounds). In other words, in 1917 Switzerland received about one-sixth as much as in 1913 of the goods from her neighbors to be manufactured and sent on to a country other than the one it came from. On the

other hand, trade in goods imported into Switzerland for finishing and returned to the same country increased from about 47,000 quintals in 1913 to 177,000 quintals in 1917. The increase is due chiefly to the increase in the trade with Germany, which rose from 35,000 quintals to 168,000 quintals in the same two years.

The belligerents had little labor to spare and therefore the passive improvement trade, that is, the finishing of Swiss goods abroad, declined from 78,000 quintals in 1913 to 9,000 quintals in 1917. Repair work on foreign goods in Switzerland declined about 33 per cent from 1913 to 1917. But the repair of Swiss goods abroad declined over 90 per cent in the same period.

The through traffic or direct transport trade between Germany, Austria, France, Italy, Belgium, and Great Britain was practically eliminated, declining almost 90 per cent from 1913 to 1917.

The effect of the war on the industries of Switzerland was disastrous in some cases and beneficial in others. The manufacture of embroideries and ribbons was reduced in Switzerland because of the difficulty that Switzerland experienced in getting raw materials. As a result, the industry was established abroad. On the other hand, the dye industry in Switzerland flourished and expanded. The lack of coal resulted in the increased use of hydro-electric power. Work at high pressure in the munitions industry resulted in a development of the methods of large-scale production.

B. North America

(i) Canada

The effect of the war was to increase the trade of Canada. Exports increased over five times and imports over two and a half times. Before the war there was an excess of imports and since 1916 there has been a large excess of exports.

FOREIGN TRADE OF CANADA⁸²
 (Figures in million dollars; 000,000 omitted)
 (At par one Canadian dollar = \$1.000)

Year	Imports	Exports	Balance
1910	301.4	375.8	- 74.4
1913	393.2	675.5	-282.3
1914	479.0	633.7	-154.7
1915	400.8	587.4	- 96.6
1916	882.9	542.1	+340.8
1917	1,375.8	873.4	+502.4
1918	1,586.2	962.5	+623.7

(Relative figures; 1913 values = 100 as a base)			
1910	76	55	....
1913	100	100	....
1914	122	93	....
1915	125	86	....
1916	224	79	....
1917	350	127	....
1918	402	140	....

The change in the commodity groups was striking. Although the total exports in 1918 were four times as great as in 1913, the exports of manufactures were 12.7 times as great and the exports of raw materials increased hardly at all. The industries of Canada developed during the war.

Canada's trade was confined to few countries, both before and during the war. The striking change that is noticeable in a comparison of the figures for 1913 with those for 1918 is an increase in the exports to Great Britain from 37 per cent to 54 per cent and a decrease in the imports from Great Britain from 21 per cent to 8 per cent. Exports to the United States declined from 35 per cent to 28 per cent and imports from the United States increased from 65 per cent to 82 per cent. Exports to France increased from 0.5 per cent to 13 per cent.

(ii) *Mexico*

The foreign trade of Mexico was affected more by internal political disturbances than by the World War. The imports in 1913 were \$97,886,000 and in 1918 \$82,235,000. The exports in 1913 were \$150,202,000 and in 1918 \$183,500,000. The ex-

⁸² Trade Report of the Department of Customs, 1913, 1916, 1918; Monthly Report of the Trade of Canada, December, 1918. Fiscal year ends on March 31.

cess of exports in 1913 was \$52,316,000 and in 1918 \$101,265,000. The imports of Mexico were confined to a small number of countries in 1913 and in 1918 the number was still further reduced.

FOREIGN TRADE OF MEXICO BY PRINCIPAL COUNTRIES

Country	Imports		Exports	
	1913	1918	1913	1918
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
United States	49.5	85.9	77.2	95.3
United Kingdom	13.2	5.8	10.4	1.2
Germany	12.9	.0	5.4	.0
France	9.4	.0	2.4	.0
Spain	5.4	1.2	.7	.3
Belgium	1.4	.0	1.7	.0

Mexico, like Canada, does most of its business with the United States. An undeveloped country is dependent upon its industrialized neighbors to a greater extent than is a developed country.

C. South America

(i) Argentina

The imports of Argentina declined during the war and the exports increased considerably.

FOREIGN TRADE OF ARGENTINA^a
(Figures in million pesos; 000,000 omitted)
(At par one peso = \$.9648)

Year	Exports	Imports	Balance
1910	389.1	379.4	+ 9.7
1913	519.2	496.2	+ 23.0
1914	403.1	322.5	+ 80.6
1915	582.2	305.5	+276.7
1916	573.0	366.1	+206.9
1917	550.2	380.3	+169.9

(Relative figures; 1910 values = 100 as a base)

Year	Exports	Imports	Balance
1910	100.0	100.0	....
1913	133.4	130.8	....
1914	103.6	85.1	....
1915	149.6	80.6	....
1916	147.3	96.6	....
1917	141.4	100.2	....

^a Intercambio Económico de la República, 1910, 1917.

The foreign trade statistics of Argentina are not classified into raw materials and manufactures. However, during the war the export of manufactures increased. Factories have been established and existing plants have been expanded. Not only are there packing houses, cheese and butter factories, tanneries, and sugar refineries, but also new plants erected during the war for the manufacture of soap, candles, furniture, glass, tinware, textiles, belting, bags, bricks, paint and toys. The restriction of trade during the war hastened the development of the industries of Argentina.

Trade currents shifted during the war. In the trade with belligerent Europe Argentina exports increased and imports decreased. For instance, between 1913 and 1917 the imports from the United Kingdom declined from 31 per cent to 22 per cent and the exports to the United Kingdom rose from 25 to 29 per cent. The trade with the neutrals of Europe increased enormously, owing chiefly to the elimination of the transshipment business of Germany, which had mediated between the European neutrals and the overseas countries. In 1917 the exports to Norway were four times as great as in 1913. Similar increases in the exports to Sweden and Denmark took place. There was an increase of trade with countries on the American continents. Imports from the United States rose from 15 per cent in 1913 to 36 per cent in 1917 and exports to the United States rose from 12 to 29 per cent. Imports from Brazil rose from 2 per cent to 10 per cent. Imports from Chile in 1917 were almost five times as great as in 1913. Imports from Japan rose over 300 per cent.

In the trade of Argentina one sees the same principle at work as in the other countries—the increase of direct trade resulting from the elimination of the international jobbers. Because of the shortage in shipping available for long voyages, trade with neighboring countries increased.

(ii) *Brazil*

The imports of Brazil declined during the war and the exports increased slightly. Coffee, which constituted 62 per cent of the exports in 1913, constituted only 37 per cent in 1917.

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FOREIGN TRADE OF BRAZIL⁸⁸
 (Figures in million milreis; 000,000 omitted)
 (At par one milreis = \$.5462)

Year	Exports	Imports	Balance
1905	685.5	455.0	+230.5
1910	939.4	713.9	+225.5
1913	972.7	1,007.5	- 34.8
1914	751.0	561.9	+189.1
1915	1,022.6	583.0	+439.6
1916	1,136.9	810.8	+326.1
1917	1,136.5	837.7	+298.8

(Relative figures; 1913 values = 100 as a base)

1905	70.5	45.2	....
1910	96.6	70.8	....
1913	100.0	100.0	....
1914	77.2	55.8	....
1915	105.0	57.9	....
1916	117.0	80.5	....
1917	116.9	83.2	....

There was a relative increase in the imports of raw materials during the war and relatively a great decrease in the imports of manufactures. Industries developed in Brazil. Instead of exporting raw cotton, for instance, Brazil has developed her textile mills so that they are able to supply over three-quarters of the country's needs. Instead of exporting leather, Brazil now manufactures over 20,000,000 pairs of shoes a year. In addition, the war has stimulated the development of the manufacture of rubber, furniture, clothing, and metallic goods.

The imports from Europe declined. In 1913 and in 1917, respectively, the United Kingdom furnished 24 per cent and 18 per cent of the imports of Brazil; France furnished 10 per cent and 4 per cent. On the other hand, imports from the United States rose from 16 per cent to 47 per cent. Local trade increased; the imports from Argentina rose from 7 per cent to 13 per cent, in 1913 and 1917, respectively. The imports from India rose from 0.8 per cent to over 2 per cent. The exports to the United States rose from 33 per cent in 1913 to 46 per cent in 1917. Exports to Argentina rose from 5 per cent to 9 per cent. The war tended to mark off new commercial spheres.

⁸⁸ From the *Commercio Exterior do Brazil*, 1917.

(iii) *Chile*

During the war the exports of Chile declined slightly and then rose. However, the imports declined to a much greater degree. The excess of exports increased.

FOREIGN TRADE OF CHILE ¹⁰
(Figures in million pesos; 000,000 omitted)
(At par one peso = \$.3650)

Year	Exports	Imports	Balance
1910	328.8	297.5	+ 31.3
1913	396.3	329.5	+ 66.8
1914	299.7	269.8	+ 29.9
1915	327.5	153.2	+174.3
1916	513.6	222.5	+291.0
1917	712.3	355.1	+357.2

(Relative figures; 1913 values = 100 as a base)

1910	82.8	90.3	....
1913	100.0	100.0	....
1914	75.6	81.8	....
1915	82.5	46.5	....
1916	129.5	67.5	....
1917	179.5	107.7	....

A comparison of the figures for 1913 and 1917 indicates a very large increase in the exports of raw materials and a decline in the imports of manufactured goods. The exports of products of the mines rose from 366 million pesos to 681 million pesos.

The currents of trade turned away from Europe toward the American continent. A comparison of the returns in 1913 and 1917 indicates a decline in imports from the United Kingdom from 30 per cent to 18 per cent, from Germany from 25 per cent to nothing and a decline in exports to the United Kingdom from 39 per cent to 22 per cent and to Germany from 21 per cent to nothing. On the other hand, the imports from the United States rose from 17 per cent to 49 per cent and the exports to the United States rose from 21 per cent to 60 per cent. The trade with Argentina and Peru and the South American countries in general increased. Imports from Peru rose from 4 per cent to

¹⁰ Statistical Abstract of the Republic of Chile, 1918, and Anuario Estadístico de la República de Chile, 1917.

8 per cent of Chile's total. The trade with the Far East likewise increased. Exports to Japan were five times as great in 1917 as in 1910. Exports to Australia rose from nothing to 4,000,000 pesos. When the international jobbers were eliminated, Chile traded direct with the Far East.

D. *The Far East*

(i) *British India*

During the war the trade of India declined. Communication with Europe was difficult and India's customers were less accessible. However, the transshipment of goods increased almost 100 per cent from 1913 to 1918. The exports of merchandise originating in the British Empire and in foreign countries, to other foreign countries and parts of the British Empire increased from 3,000,000 pounds sterling in 1913 to 6,000,000 in 1918. As the transshipment trade of Great Britain declined, that of British India rose. The totals for the fiscal years ending March 31 were: 1914, £3,100,000; 1915, £2,700,000; 1916, £3,200,000; 1917, £5,400,000, and 1918, £6,100,000.

FOREIGN TRADE OF BRITISH INDIA ¹¹

(Figures in million pounds sterling; 000,000 omitted)

(At par one pound sterling = \$4.8665)

Year	Exports	Imports	Balance
1913	160.9	107.3	53.6
1914	162.8	122.2	40.6
1915	118.3	92.0	26.4
1916	128.4	88.0	40.4
1917	155.4	99.7	55.7
1918	155.6	100.3	55.3

(Relative figures; 1913 values = 100 as a base)

Year	Exports	Imports	Balance
1913	100	100	....
1914	101	114	....
1915	73	86	....
1916	80	82	....
1917	97	93	....
1918	97	94	....

¹¹ Annual Statement of the Sea-Borne Trade of British India for the Fiscal Years ending March, 1913-1918.

In comparing the fiscal years 1914 and 1918, one notes a relative increase of imports of raw materials and a decrease of the imports of manufactures. On the other hand, there were a relative decrease in the exports of raw materials and an increase in the exports of manufactured goods. The development of industries in India was accelerated by the war.

There was a relative decrease in the value of imports from Europe, except from the minor countries which had traded through Germany. For example, the imports from Norway, Sweden, and Spain increased considerably. There was a compensating increase of imports from the countries skirting the Pacific Ocean, Japan, the United States, Java. Between 1913 and 1918 the imports from the United Kingdom declined from 64 per cent to 54 per cent. In 1913 and 1918 Germany supplied, respectively, 7 per cent and nothing, Japan 3 per cent and 12 per cent, the United States 3 per cent and 8 per cent. The exports of domestic goods to continental Europe declined but exports to the British possessions, to Japan, and to the United States increased greatly. The exports to Great Britain increased slightly. In 1913 and 1918, respectively, France took 7 per cent and 4 per cent, Germany took 11 per cent and nothing. On the other hand, the British possessions took 14 per cent and 27 per cent, the United States took 9 per cent and 13 per cent, and Japan took 9 per cent and 15 per cent, respectively, in 1913 and 1918. Trade with the nearby countries increased. Trade with the international jobbing countries decreased.

(ii) *Australia*

The trade of Australia declined in value during the war except for the exports in the fiscal year 1917. However, the imports declined more than the exports.

FOREIGN TRADE OF AUSTRALIA ²²
(Figures in million pounds sterling; 000,000 omitted)

Year	Exports	Imports	Balance
1910	74.5	60.0	+14.5
1913	78.6	79.8	- 1.2
1915	60.6	64.4	- 3.8
1916	74.8	77.5	- 2.7
1917	98.0	76.2	+21.8
1918	75.0	60.8	+14.2

(Relative figures; 1913 values = 100 as a base)			
1910	94.8	75.3	....
1913	100.0	100.0	....
1915	77.1	80.6	....
1916	95.0	97.2	....
1917	124.6	95.5	....
1918	95.5	76.2	....

As in the case of British India there was a decline in trade with continental Europe and an increase in trade with countries nearby and those skirting the Pacific Ocean. The imports from the United Kingdom declined from 60 per cent in the calendar year 1913 to 52 per cent in the fiscal year 1917. The imports from Belgium and from Germany were eliminated. On the other hand, the imports from the United States rose in value from 12 per cent in 1913 to 20 per cent in 1917. The imports from India rose from under 4 per cent to 5 per cent and the imports from Japan rose from 1 per cent to 4.5 per cent. The imports from Canada, Chile, British South Africa, and Java increased.

The exports to the United Kingdom rose from 50 per cent in 1913 to 59 per cent in 1917. But the exports to France declined from 12 per cent to 4 per cent. On the other hand, there was an increase of exports to the United States from 3 per cent to 7 per cent. The exports to Canada were almost 40 times as great in 1917 as in 1913. The exports to India and to Japan doubled in the same period. Direct trade was stimulated. Trade with nearby countries increased.

²² Trade Customs and Excise Revenue of the Commonwealth of Australia for the Calendar Years 1910, 1913, and the Fiscal Years ending June 30, 1915 to 1918. Quarterly Summary of Australian Statistics, December, 1918.

(iii) *British South Africa*

The trade of British South Africa, particularly exports, declined during the war. The excess of exports before the war was replaced by an excess of imports. The shortage of shipping rendered South Africa less accessible to the trading nations. However, the transshipment trade increased for the reexports of foreign and colonial produce, rose very rapidly during the war, from £1,000,000 in 1913, to £1,400,000 in 1915, £2,500,000 in 1916, and £3,300,000 in 1917.

FOREIGN TRADE OF BRITISH SOUTH AFRICA¹³
(Figures in million pounds sterling; 000,000 omitted)

Year	Exports	Imports	Balance
1911	58.8	39.6	+19.2
1913	69.0	44.6	+24.4
1914	41.8	37.9	+ 3.9
1915	16.7	35.0	-18.3
1916	24.6	42.8	-18.2
1917	30.0	40.3	-10.3

(Relative figures; 1913 values = 100 as a base)

Year	Exports	Imports	Balance
1911	84	89	....
1913	100	100	....
1914	60	85	....
1915	24	79	....
1916	36	96	....
1917	43	90	....
1918	49	121	....

The great decline in exports was due to the curtailment of the shipment of gold and diamonds during the war. In 1913 over 37,000,000 pounds sterling of gold was exported and in 1917 none was exported. There was also a decline in the imports of food and of manufactures. There was a slight increase in the imports of raw materials.

There was a decline in the imports from Europe and a great increase in the imports from the non-European countries. The

¹³ Annual Statement of Trade and Shipping of the Union of South Africa, 1911 to 1918; Trade of the Union of South Africa, December, 1918.

imports from India in 1913 were 2.8 per cent of the total value and in 1918 7.0 per cent. The imports from Japan in the same two years rose from 0.3 per cent to 5.5 per cent. Imports from the United States rose from 9.4 per cent to 13.8 per cent. Imports from the Argentine rose from 0.4 per cent to 1.3 per cent. But the imports from Germany, which in 1913 were 8.5 per cent of the total, and from France which were 1.5 per cent, were eliminated in 1918.

The exports illustrate the change in trade currents to an even greater degree. The exports to the United Kingdom were 91.1 per cent in 1913 and only 51.5 per cent in 1918. On the other hand, the exports to Japan rose from nothing in 1913 to 8.5 per cent of the total in 1918. The exports to the United States were 0.8 per cent in 1913 and 19.7 per cent in 1918.

As in the case of the other countries, the shortage of shipping eliminated the long voyage and stimulated trade with neighboring countries. The European belligerents were the international jobbers, and when they ceased to function as such, direct trade was established between countries that had utilized the jobbers' services.

CHAPTER IX

CONCLUSION

The supply of food and of raw materials is scattered all over the world. No country has the varieties of climate that yield all the food that its population requires, the geological formations that furnish all the raw materials that it uses in manufactures, or the types of mind and the craft traditions that produce all the finished goods it consumes. This is the basis of international trade. Man is a particularist in production and a universalist in consumption. He trades what he produces for what he consumes.

Before the war trade was largely unrestricted except for customs tariffs, and tariff wars were costly to the participants and therefore short-lived. Germany enjoyed the commercial freedom of the seas. For instance, her trade with British India was growing more rapidly than that of Great Britain, and in some commodities Germany controlled over 90 per cent of the trade of India.

The effects of the war were partly temporary and partly permanent. The trade of Germany and Russia in Europe was reduced. Normal industrial life in belligerent Europe was replaced by the production of materials of war. Therefore belligerent Europe imported more and exported less than before the war. The excess of imports was financed by credits. The neutral world and the inactive Allies increased their exports and decreased their imports, and in many cases an excess of imports was changed to an excess of exports. Governments restricted trade with the enemy. Traffic in luxuries was reduced. The heavy flow of trade to Europe created a shortage in tonnage, which was aggravated by submarine warfare. These changes were all tem-

porary. Trade returns will in the main probably show a tendency toward a reversion to pre-war conditions.

On the other hand some changes seem to be permanent. For four years the countries dependent upon Europe have been compelled to seek new sources of manufactured goods and new outlets for their raw materials, or else to establish some local industries to satisfy their needs. Industry, hitherto concentrated chiefly in Europe, has been temporarily disrupted and to some degree permanently decentralized. The transshipment of goods from the Orient to America or from South America to North America by way of Europe has been partly replaced by direct trade. The international jobbing business has been reduced and in some lines eliminated. Countries were compelled to become self-sufficient during the war. The old creditor nations, clustered in Europe, have become borrowers of widely scattered countries, the United States, Japan, and Argentina, hitherto their debtors. The world has hastened upon a stage of economic development which it might have taken generations to attain. The predominance of Europe in trade has declined, and new commercial spheres have become defined in America and in the Far East, centering about the United States and Japan.

As our manufacturing is no longer centralized in New England, but is being distributed throughout the country, so internationally the industries of the world are becoming decentralized. As our domestic jobber is being eliminated because the manufacturer is trading directly with his customers, so internationally the jobber is no longer in all cases the most economical distributor of goods. The increase of facilities for communication and transportation is slowly eliminating the service of the middleman, internationally as well as nationally. As the Federal Reserve System replaced the concentration of financial power in New York, so the dominance of London seems to have been replaced by a wider distribution of financial resources. Federalism has tended to replace centralization, in industry, in trade, and in finance.¹

¹ This view is referred to by Walther Rathenau, head of the Allgemeine Electricitäts Gesellschaft of Germany, in his appeal for European unity against the too rapid disintegration of its economic prestige due to the rise of America and the Far East in industry and commerce.

The relation of nationalism and internationalism in the economic world has been vitally affected. The war has emphasized the essential unity of the economic interests of all the nations and has proved the costliness of extreme nationalistic policies. The threats of boycotts and of restrictions of trade have failed in practice. The predictions of economic war have proved idle and the resolutions to discriminate against enemy powers have already been largely abandoned. British merchants are eager to sell to Germany, and because of the exchange situation, French and Italian traders prefer to buy in Germany. Commercial policy, to be sound, must be determined not by political affiliations, but by economic considerations. Harriet Martineau, writing of the period after the Napoleonic Wars, said, "Europe gained everything when it gained thirty years of peace." The waste of the World War will be made good more quickly if an economic peace is established. On a liberal policy depends the restoration of Europe and the further progress of the world.

Before the war, economic interests crossed national boundaries. Labor was organized in international unions. Business was transacted increasingly by international trusts and corporations. Chambers of commerce were associated internationally. Governments were coöperating in various institutions, as the Scandinavian and the Latin Monetary Unions, the Postal Union, the Metric Union, the Radio-Telegraphic Union, etc. This mode of association, however, was largely fragmentary and not part of a whole plan.

During the war coöperation between the Allies became essential to victory. The Commission Internationale de Ravitaillement, the Allied Maritime Transport Council, and finally the Supreme Economic Council were created to carry out the common will of the belligerents.

The League of Nations is merely the conscious projection of a movement, whose origins lay in international commercial intercourse and whose progress has been accelerated by the war.

An association of free peoples implies a fairly uniform degree of economic development. The political internationalism of Rome was based on centralized force. Political imperialism has,

with a few important exceptions, been replaced by our modern political system of independent governments, based on the principle of self-determination. These have become federated in international unions, having specific functions.

The commercial régime of the eighteenth and nineteenth centuries was based on the dominance of one or two of the great powers of Europe. The process of economic decentralization, of the emancipation of the young agricultural countries from the control of the old industrialized countries, grew under the protective tariff system. Alexander Hamilton in his "Report on Manufactures" and Friedrich List in his "National System of Political Economy" foreshadowed the methods of the industrial development of the United States.

Normally agricultural countries and raw-material producing regions develop eventually into centers of industry and trade. The war has hastened the growth of industrial self-sufficiency, the decentralization of trade, and the lessened dependence upon Europe of the rest of the world. The war has hastened the disintegration, not only of political imperialism, but of commercial imperialism as well. Decentralization is the prerequisite of federalism. In a more than superficial sense the war has prepared the world for an inevitable League of Nations. A degree of development, more uniform at the present time than at any other time in history, makes possible its formation. As the backward countries of the world become more industrialized, as the density of their populations tends to increase by migration, the economic dominance of Europe will probably decline still further but the interdependence of the nations of the world will increase. The process of economic decentralization will prepare for a truer political federalism. Nations, commercially interdependent and politically independent alone can constitute a League of Nations.

APPENDIX A
THE PARIS RESOLUTIONS

ADOPTED AT AN

**ECONOMIC CONFERENCE OF THE ALLIED
GOVERNMENTS, JUNE 17, 1916**

(Announcement Issued by the British Board of Trade)

The representatives of the Allied Governments have met at Paris under the presidency of M. Clementel, Minister of Commerce, on June 14, 15, 16, and 17, 1916, for the purpose of fulfilling the mandate given to them by the Paris Conference of March 28, 1916, of giving practical expression to their solidarity of views and interests, and of proposing to their respective Governments the appropriate measures for realizing this solidarity.

They declare that, after forcing upon them the military contest in spite of all their efforts to avoid the conflict, the Empires of Central Europe are to-day preparing, in concert with their allies, for a contest on the economic plane, which will not only survive the reestablishment of peace, but will at that moment attain its full scope and intensity.

They can not therefore conceal from themselves that the agreements which are being prepared for this purpose between their enemies have the obvious object of establishing the domination of the latter over the production and the markets of the whole world and of imposing on other countries an intolerable yoke.

In the face of so grave a peril the representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defense, to adopt and realize from

now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and, on the other hand, to facilitate the organization of a permanent basis of their economic alliance.

For this purpose the representatives of the Allied Governments have decided to submit for the approval of those Governments the following resolutions:

Measures for the War Period

I. The laws and regulations prohibiting trading with the enemy shall be brought into accord. For this purpose:

(a) The Allies will prohibit their own subjects and citizens and all persons residing in their territories from carrying on any trade with (1) the inhabitants of enemy countries whatever their nationality; (2) enemy subjects wherever resident; (3) persons, firms, and companies whose business is controlled wholly or partially by enemy subjects or is subject to enemy influence and whose names are included in a special list.

(b) They will prohibit the importation into their territories of all goods originating in or coming from enemy countries.

(c) They will devise means of establishing a system enabling contracts entered into with enemy subjects and injurious to national interests to be canceled unconditionally.

II. Business undertakings owned or operated by enemy subjects in the territories of the Allies will all be sequestered or placed under control; measures will be taken for the purpose of winding up some of these undertakings and of realizing their assets, the proceeds of such realization remaining sequestered or under control.

III. In addition to the export prohibitions which are necessitated by the internal situation of each of the Allied countries, the Allies will complete the measures already taken for the restriction of enemy supplies, both in the mother countries and in the dominions, colonies, and protectorates: (1) By unifying the lists of contraband and of export prohibition, and particu-

larly by prohibiting the export of all commodities declared absolute or conditional contraband; (2) by making the grant of licenses for export to neutral countries from which export to enemy territories might take place conditional upon the existence in such countries of control organizations approved by the Allies; or, in the absence of such organizations, upon special guarantees such as the limitation of the quantities exported, supervision by Allied consular officers, etc.

Transitory Measures for the Period of Commercial, Industrial, Agricultural, and Maritime Reconstruction of the Allied Countries

I. The Allies declare their common determination to insure the reestablishment of the countries suffering from acts of destruction, spoliation, and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock, and mercantile fleet, or to assist them to re-equip themselves in these respects.

II. Whereas the war has put an end to all the treaties of commerce between the Allies and the enemy Powers, and whereas it is of essential importance that, during the period of economic reconstruction which will follow the cessation of hostilities, the liberty of none of the Allies should be hampered by any claim put forward by the enemy Powers to most-favored-nation treatment, the Allies agree that the benefit of this treatment shall not be granted to those Powers during a number of years to be fixed by mutual agreement among themselves.

During this number of years the Allies undertake to assure to each other so far as possible compensatory outlets for trade in case consequences detrimental to their commerce result from the application of the undertaking referred to in the preceding paragraph.

III. The Allies declare themselves agreed to conserve for the Allied countries, before all others, their natural resources during the whole period of commercial, industrial, agricultural, and mari-

time reconstruction, and for this purpose they undertake to establish special arrangements to facilitate the interchange of these resources.

IV. In order to defend their commerce, their industry, their agriculture, and their navigation against economic aggression resulting from dumping or any other mode of unfair competition the Allies decide to fix by agreement a period of time during which the commerce of the enemy Powers shall be submitted to special treatment and the goods originating in their countries shall be subjected either to prohibitions or to a special régime of an effective character.

The Allies will determine by agreement through diplomatic channels the special conditions to be imposed during the above-mentioned period on the ships of the enemy Powers.

V. The Allies will devise the measures to be taken jointly or severally for preventing enemy subjects from exercising in their territories, certain industries or professions which concern national defense or economic independence.

Permanent Measures of Mutual Assistance and Collaboration Among the Allies

I. The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as the raw materials and manufactured articles essential to the normal development of their economic activities.

These measures should be directed to assuring the independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial, and maritime organization.

The Allies will adopt such measures as may seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.

They may, for example, have recourse either to enterprises subsidized, directed, or controlled by themselves, or to the grant of financial assistance for the encouragement of scientific and

technical research and the development of national industries and resources; to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

II. In order to permit interchange of their products the Allies undertake to adopt measures for facilitating their mutual trade relations, both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic, and other communications.

III. The Allies undertake to convene a meeting of technical delegates to draw up measures for the assimilation, so far as may be possible, of their laws governing patents, indications of origin, and trade-marks.

In regard to patents, trade-marks, and literary and artistic copyright which have come into existence during the war in enemy countries, the Allies will adopt, so far as possible, an identical procedure, to be applied as soon as hostilities cease. This procedure will be elaborated by the technical delegates of the Allies.

Whereas for the purpose of their common defense against the enemy the Allied Powers have agreed to adopt a common economic policy, on the lines laid down in the resolutions which have been passed, and whereas it is recognized that the effectiveness of this policy depends absolutely upon these resolutions being put into operation forthwith, the representatives of the Allied Governments undertake to recommend their respective Governments to take without delay all the measures, whether temporary or permanent, requisite for giving full and complete effect to this policy forthwith, and to communicate to each other the decisions arrived at to attain that object.

Paris, June 17, 1916.

APPENDIX B

SUMMARY OF FINAL REPORT OF COMMITTEE ON COMMERCIAL AND INDUSTRIAL POLICY AFTER THE WAR

The Committee's Procedure

In July, 1916, the Prime Minister of the day (Mr. Asquith), appointed a Committee, of which Lord Balfour was the Chairman, with the following terms of reference:

To consider the commercial and industrial policy to be adopted after the war, with special reference to the conclusions reached at the Economic Conference of the Allies, and to the following questions:

(a) What industries are essential to the future safety of the nation; and what steps should be taken to maintain or establish them.

(b) What steps should be taken to recover home and foreign trade lost during the war, and to secure new markets.

(c) To what extent and by what means the resources of the Empire should, and can be developed.

(d) To what extent and by what means the sources of supply within the Empire can be prevented from falling under foreign control.

In the introduction to their main report, which is dated 3rd December, 1917, and addressed to the present Prime Minister, the Committee explain their procedure in carrying out the inquiry entrusted to them, and refer to the interim reports which they issued in the course of their deliberations.

Summary of Conclusions

In this report we recapitulate for the sake of making a com-

plete record the conclusions embodied in our interim reports.¹ We state the broad principles which in our opinion should guide the commercial policy of the Government in other measures which may be required during the transitional period after the war, but we do not think it possible or expedient for us to attempt any detailed elaboration of those measures which must largely depend upon circumstances which cannot at present be altogether foreseen. . . . The main object, therefore, of the report which we have now the honor to present is to lay down the general lines of policy upon which we think that permanent provision should be made in the light of the experience of the war for the safeguarding and promotion of British industry and commerce in the future. This we do in broad outline, and we have not attempted to enter into the detailed application of the principles which we recommend, except where it appeared to be necessary to do so for purposes of illustration.

Principal Subjects Dealt With

The main subjects discussed in this report, in addition to those already dealt with, in our interim reports, are accordingly:

(1) The manner in which imperial resources may be further developed and the supplies of important raw materials assured.

(2) The treatment of aliens, including present enemy subjects, in respect of certain commercial and industrial occupations in this country.

(3) The internal reorganization of industry and the assistance which may be rendered by the Government in promoting it.

¹9th November, 1916, a report on the Importation of Goods from the present Enemy Countries during the Transitional Period after the War.

14th December, 1916, a report on the Treatment of Exports from the United Kingdom and British Overseas Possessions and the Conservation of the Resources of the Empire during the same period.

2nd February, 1917, certain Resolutions in regard to the Policy of Imperial Preference.

16th March, 1917, interim report on certain Essential Industries.

(4) The question of financial facilities for trade, and the bearing of taxation upon industrial development.

(5) The general policy which should be adopted by the State in regard to the manufacturing and commercial interests of the British Empire, with special reference to the prevention of "dumping" and the safeguarding of important staple industries.

(6) The proposals for the adoption of the metric system of weights and measures and the introduction of a decimal coinage.

CHAPTER II

British Trade and Industry in 1913

In this chapter we take as our starting point a survey of the general position of British industry and overseas trade in 1913, the last complete year of peace, based especially upon the reports of the Board of Trade committees upon our chief staple industries.

... We find that in long-established manufactures, with the important exception of the iron and steel trades, British industry had shown in the decade preceding the war great vitality and power of extension, but that in the rise and expansion of the more modern branches of industrial production the United Kingdom has taken only a limited share. Certain branches of production, of great importance as a basis for other manufactures, had come to be entirely or very largely under German control, and in numerous branches of industry, outside the great staple trades, foreign competition had become increasingly acute, and foreign manufactures had secured a strong or even predominant position. In overseas trade British merchants and manufacturers were encountering energetic and successful competition, which is ascribed to a variety of causes, including the adoption by foreign merchants and manufacturers of methods of organization and distribution different from, and in some cases markedly more effective than, those hitherto pursued by British traders.

Owing to the abnormal conditions due to the war, whilst an

amount of foreign trade very large in value has been maintained, its character and directions have been altered in many respects. . . . In numerous directions British manufacturers have shown much adaptability and resourcefulness, and the knowledge and experience gained during the war should be a most valuable asset in respect of our post-war trade. We urge the vital importance of every effort on the part of both employers and employed to attain the largest possible volume of production in order to secure the speedy recovery of our industrial and financial position.

CHAPTER III

Measures to Be Adopted During the Transitional Period

We reaffirm the main recommendations embodied in our First and Second Interim Reports, viz:—

(a) The present régime, whereby importation of goods of enemy origin is prohibited, should be continued, subject to license in exceptional cases, for a period of at least twelve months after the conclusion of the war, and subsequently for such further period as His Majesty's Government may deem expedient.

(b) The Paris Resolutions relating to the plan of the Allies for the restoration of their industries can be carried into effect if a policy of joint control of certain important commodities can be agreed upon between the British Empire and the Allies. Any measures should aim at securing to the British Empire and the Allied countries priority for their requirements and should be applied only to materials which are mainly derived from those countries and will be required by them. This policy should be applied as regards the United Kingdom by legislation empowering the Government to prohibit the export except under license of such articles as may be deemed expedient, and as regards the British Empire and Allied countries the Government should, without delay, enter into negotiations with the various Governments concerned, with a view to the adoption of suitable joint measures in the case of selected commodities of importance,

(c) We recommend that the Government should consider, in consultation with the Allies, the expediency of establishing after the war a joint organization on the lines of the Commission Internationale de Ravitaillement for dealing with the orders of the Allied Governments for reconstruction purposes, and with such private orders as they may find it expedient to centralize.

(d) We point out that the prolongation of the war and the entry into it of the United States have increased the importance of a considered policy directed towards assuring to the British Empire and the Allies adequate supplies of essential raw materials during the period immediately following the conclusion of peace, and that the extent to which the Paris Resolutions which bear upon this vital question can be carried into effect depends upon the coöperation of the Governments concerned.

We recognize that in addition to the foregoing proposals it will be necessary to continue for some period after the war some portion of the control of home and foreign trade imposed during the war in order particularly to secure to the country adequate supplies of foodstuffs and raw materials for industry and their fair distribution. But we recommend that the restrictive measures which it may be necessary to continue should be kept within the narrowest possible limits, and, wherever practicable, the trades concerned should be entrusted with the working of the control under Government authority. The policy of the Government should be directed towards the restoration of normal industrial conditions within the shortest possible time. We are strongly of opinion that State control of, and restrictions upon, industry arising out of war conditions will be found to be detrimental under normal conditions and should be removed so soon as possible after the conclusion of peace, due regard being had to the circumstances of each particular case.

CHAPTER IV

The Supply of Raw Materials

The experience of the war has shown that the United Kingdom and the British Empire as a whole are dependent upon foreign

countries for a large number of raw materials which are not produced at all within the Empire, or are only produced on a scale altogether incommensurate with our requirements. We do not think that any attempt to make the Empire self-supporting in respect of them all would be either practicable or economically sound, but that a selective policy will be necessary, which shall have regard to relative importance, whether industrial or military, and to the sources of supply and the likelihood of their disturbance in time of war.

We doubt if the proposals of the Dominions Royal Commission (Cd. 8462) for the establishment of a single Development Board to deal with this problem and with certain other matters is immediately practicable, and we think that it would be possible to make more rapid progress by dealing separately with a number of special commodities or groups of commodities.

We refer to the recommendations which we have already made for the establishment of an Intelligence and Advisory Bureau.

(a) For securing the detailed and systematic collection, examination and dissemination of information as to the needs and resources of the Empire in respect of minerals and metals of economic and military importance, and

(b) For framing proposals for submission to the proper authorities as to the coördination of existing surveys and investigations and any extensions thereof which may appear expedient.

We have further suggested that in certain cases it should be the duty of the organization thus proposed to consider if any deposits of minerals not adequately worked, or any new deposits unlikely to be adequately worked without some kind of Government assistance, are of such military importance as to warrant Government aid in their development, and, if so, to frame recommendations for the consideration of the particular Government of any part of the Empire which may be concerned.

We note that the Board of Trade have already set up a committee to investigate the question of the supply of cotton within the Empire in a similar manner, and we recommend that special inquiries should be instituted on these lines as regards each com-

modity which may be selected for treatment on the principles which we have indicated. The object to be kept in view should be that the Empire may be capable in an emergency of being independent in respect of the supply of every essential commodity of any single foreign country or possible combination of foreign countries.

We further recommend that in these inquiries advantage should be taken of the organization which already exists at the Imperial Institute, and that a small independent committee should be appointed to consider to what extent and in what manner the Institute can be made more effective for the purpose.

As regards Alien interests in the sources of supply within the Empire, we think that some Government control, which may take various forms, according to the circumstances of each case, will be necessary in future in respect of a limited number of commodities of vital military importance. Apart from this limited class of cases we think that it would be unwise to aim at the exclusion of foreign (other than present enemy) capital from sharing in the development of the material resources of the Empire.

We recommend that legislative powers should be taken to secure:

(a) Complete disclosure, so far as is practicable, of the extent of foreign holdings in any particular case.

(b) That mineral and other properties are not secured by foreign concerns in order to prevent the development of those properties and to check competition in supply; and

(c) That in the case of commodities of great Imperial importance the local Government concerned should have some measure of control over the working of the properties.

These principles, if accepted by the Government, should be brought under the consideration of the Governments of other parts of the Empire, with a view to the adoption of a uniform policy.

CHAPTER V

Essential Industries

We refer to the detailed recommendations contained in our interim report on Essential Industries as regards certain selected commodities which, whilst the branches of industry engaged therein are not of such magnitude as the great staple trades, are essential to national safety, as being absolutely indispensable to important British industries, and were supplied before the war entirely or mainly from present enemy sources or from sources under present enemy control.

We reproduce the proposals made by us in that report for the establishment of a Special Industries Board charged with the duty of watching the course of industrial development, and of framing from time to time, when necessary, either of its own initiative or on the application of interested departments or persons, detailed schemes for the promotion and assistance of industries concerned with the production of commodities of the special character indicated.

The Interim Report on Essential Industries, as summarized in Chapter V, follows:

In this report, which is dated 16th March, 1917, the Committee examined some special industries to which the term "key" or "pivotal" has been applied. They were: Synthetic dyes, spelter, tungsten, magnetos, optical and chemical glass, hosiery needles, thorium nitrate, barytes, limit and screw gauges, and drugs. . . . The Committee made the following general statement as to their conclusions:

From the consideration of these industries certain principles emerge which call for notice. We now proceed to state these principles and to make the general recommendations which in our opinion follow from them.

In the first place a particular commodity or branch of production which is of great national importance at a given time may not continue to be so, and on the other hand, new essential industries may emerge in the future.

Secondly, the causes which have rendered British trade dependent upon the present enemy countries for the supply of particular commodities are by no means uniform, and the measures required to promote the various branches of industry involved may vary with each individual commodity. The problem will also be affected as new economic and political conditions arise and changes occur in the international situation.

It seems to us to be certain that in the future, industries of the nature dealt with in this report will always require special and separate consideration, and that no general measure will be sufficient to meet the varying requirements. Consequently it is impossible to lay down permanent and uniform lines of State action in this connection; nor are we in a position to frame an exhaustive list of such industries as may from time to time call for exceptional treatment, or to elaborate in detail the precise measures which may be needed in each case. The special recommendations which we have made in the previous paragraphs may themselves require modification to meet the conditions which may actually exist after the war.

Establishment of a Special Industries Board

In these circumstances we recommend the establishment of a permanent Board (which might be called the Special Industries Board), charged with the duty of watching the course of industrial development and of framing from time to time, when necessary, either on its own initiative or on the application of interested departments or persons, detailed schemes for the promotion and assistance of industries concerned with the production of commodities of the special character indicated in this report.

This organization should take the form of a board of commercial and industrial experts, associated with whatever Department of State is entrusted with the care of the commercial and manufacturing interests of the country, and represented in Parliament by the political head of that Department. It should be a statutory body with a permanent chairman and with power to appoint such secretarial and technical staff as it may require

from time to time. It should issue an annual report of its proceedings, and such special reports as it may think expedient, which reports should be presented to Parliament; and it should be a statutory condition that, except upon its recommendation, no State assistance by way of grant or subsidy should be given to any industry or branch of industry. It should work in close relation and coöperation with the Department of Scientific and Industrial Research, and all other Departments of the State interested in the development of industry, and it should always be cognizant not only of naval and military requirements as they affect industry, but also of the current political relationships of this country, since changes in these respects may obviously bring to light fresh "essential" industries.

The maintenance of efficient and adequate production at reasonable prices must be a condition of the continued receipt by an industry of special State assistance in any form. In addition to the framing of schemes, it should be the duty of the Board, the establishment of which we recommend, to watch over the fulfilment of this condition, and for this purpose it should make such arrangements as to inspection as may be necessary. Where financial assistance is given it should be a condition that the firms or companies in receipt of grants should be entirely British, and the grants should be issued only upon a certificate from the Board that this condition and any other conditions which may have been imposed continue to be satisfied, and the repayment of the whole or at least part of any grants should always be kept in view. Similarly, where import restrictions are imposed for the purposes indicated in this report, the grant of licenses should be regulated on the advice of the Board. In any cases in which special protection may have been given against foreign competition by way of tariff or prohibition, it should be a function of the Board to consider complaints that such protection has been improperly used or has for any reason ceased to be in the public interest; and in all cases in which special assistance of the kinds suggested in this report is given, the Board should have power to consider complaints as to the conditions and terms of employment in such industries, and to require any changes to be

made therein which it may deem proper. For these purposes it should have the right which has been exercised with advantage by the contracting departments of the Government during the war to examine books and cost accounts, to conduct such inquiries as it may think necessary, and to publish its conclusions. The members of the Board should, we think, be appointed for fixed terms of years.

Failing efficient and adequate output, the Government should itself undertake the manufacture of such articles as may be essential for national safety.

CHAPTER VI

The Treatment of Aliens in Respect of Commercial and Industrial Occupations and Undertakings

We state that in our opinion it would not be desirable to impose any special restrictions on the participation of aliens generally in commercial and industrial occupations in this country. In the limited number of cases in which some restrictions or safeguards may be necessary, adequate security can, as a rule, be ensured by requiring disclosure of the facts. . . .

The registration of title to property should be made compulsory over the whole of the United Kingdom, and such registration should involve a declaration of the nationality of the owner or transferee, in order to enable the Government to decide whether in any particular case national security requires the expropriation of foreign interests.

We are unable to support the proposal which has been made that every limited company should be required to include in its annual return to Somerset House a statement of the amount of its stock or shares held by or on behalf of aliens, but we recommend that the Board of Trade should have power to make an investigation in the case of any particular company in which, on grounds of national safety, control might be undesirable, and in which there is a *prima facie* ground for suspecting its existence to an undue extent.

We think that it would be unwise to enter on a policy of checking the establishment or continuance of the agencies or branches of foreign banks and insurance companies in this country, but that for reasons which we specify they should be required in future to take out annual licenses, for which a small fee should be paid. We also recommend that foreign insurance companies should be required to make a deposit proportionate to the business done by them, and that close attention should be given by the Inland Revenue authorities to the importance of securing that foreign banks do not evade payment of the British Income Tax.

We consider that for a period after the war it will be necessary to impose special restrictions upon the subjects of the present enemy countries and that this can best be done by means of stringent permit and police regulations.

Subject to the last mentioned safeguards, we do not think that it will be necessary or practicable, except possibly for a short period in special cases, to attempt to prevent present enemy subjects from establishing agencies, or holding interests in commercial or industrial undertakings generally in this country. In particular, we think that it would be impracticable and inexpedient to impose any restrictions or discriminations as regards the use of London credit or of London insurance or reinsurance facilities.

CHAPTER VII

Industrial and Commercial Organization

We point out that, notwithstanding the strength of the United Kingdom's economic position, there is a widespread feeling that a reconsideration of our industrial and trade organization has become necessary in consequence of the increasing intensity of foreign competition, based largely upon a system of combination in respect of production and distribution which has hitherto made comparatively little progress in the United Kingdom. While there is a danger that consolidation and combination may not only

tend to diminish that individual initiative and enterprise to which the progress of British manufacture and industry has been largely due, but may also be carried to a point at which it becomes inimical to the general interests of the country, we agree generally with the opinion that in some important directions the individualistic methods hitherto mainly adopted should be supplemented or entirely replaced by coöperation and coördination in respect of (1) the securing of supplies of materials; (2) production (in which we include standardization and scientific and industrial research), and (3) marketing.

As regards associations for general trade purposes, it is, in our opinion, very desirable that in all important British industries there should exist strong, comprehensive and well organized associations which should be clearing houses of information of common interest, and should be competent to voice the opinions and needs of their respective trades as a whole.

As regards combinations for the regulation of trade, we describe briefly the forms which these have taken in the United Kingdom, and the extent to which they have been carried, and we point out that their development in the United Kingdom during the two decades preceding the war was far surpassed by the corresponding movements in the United States and Germany, which in the former case have been chiefly in the direction of actual consolidations, and in the latter case have taken the form of terminable combines or "cartels."

We are of opinion that every encouragement should be given by the Government to the formation of combinations of manufacturers and others concerned to secure supplies of materials, and that, where it appears expedient that the control of mineral deposits in foreign countries should be obtained, all practicable support should be given.

In regard to production, we think that the constructive action must come from the industries themselves, and we hope that the development may be assisted by the policy of the Department of Scientific and Industrial Research, to which we refer, by coöperation amongst manufacturers in respect of munitions and other military and naval supplies, and by combination in respect of

marketing. In order to facilitate the necessary organization of many industries on a larger scale than has been the case in past years, we recommend that an authority should be set up which should have the right, after inquiry, to grant compulsory powers for the acquisition of land for industrial purposes and the diversion or abolition of roads or footpaths. We also recommend that there should be a judicial body with compulsory powers to deal with the question of wayleaves required for the development of mineral royalties and the commercial working of collieries and mines.

We recognize that the formation of organizations for marketing in respect of overseas trade will stimulate the creation of combinations for the control of domestic sales. We believe, however, that such development is not only desirable in some cases, but practically inevitable under modern conditions, and that the attitude of public opinion, of local authorities and the State, which has hitherto been antagonistic, must be modified. We consider, moreover, that so far from being adverse to the interests of labor, combinations of employers are, on the whole, beneficial to the workers in the trade affected in respect of rates of wages, steadiness of employment and other matters.

We think that it would be inexpedient for the Government to enter upon any policy aiming at positive control of combinations in this country, but that it is desirable that some means should be devised for securing to a responsible Government Department adequate information as to the formation of combinations, and that provision should be made for State investigation in special cases. At the same time we think that combinations should, where necessary, be legalized so as to be enforceable between members.

Recommendations as to Organizations

We accordingly recommend in this connection:

(a) That it should be a legislative requirement that all international combinations or agreements (or combinations or agreements which are made directly or indirectly on behalf of foreign

interests) to which British companies or firms are parties, made for the regulation of the prices of goods or services, or for the delimitation of markets, should be registered at the Board of Trade by the British persons, firms or companies concerned, with a statement of the names of all the parties thereto and of the general nature and object of the combination or agreement; and that all modifications of such agreements and all adhesions and withdrawals should also be notified.

(b) That it should be optional for the parties to any combination or agreement between British firms having for its object joint marketing arrangements, either in the United Kingdom or abroad, or the regulation of prices or output, or the delimitation of markets, to register such combination or agreement at the Board of Trade, with a statement of the names of the parties thereto, and as to its general nature and object; and that such steps as may be necessary should be taken to make any price or other market arrangements made by or resulting from combinations and agreements so registered enforceable at law as between the parties thereto.

(c) That, in order that the Board of Trade may be able to keep itself fully informed as to the nature, extent and operations of industrial combinations in the United Kingdom or of international combinations of which British firms, companies or associations form part, that Department should have power to call upon individual consolidations or combines from time to time to furnish for its confidential use such information as it may require.

CHAPTER VIII

Finance and Industry

As regards the question of financial facilities for trade, we refer to the recommendations of the Special Trade Committees and to the Report of the Committee appointed by the Board of Trade which led to the establishment of the British Trade Corporation, and we summarize the evidence which we have received

as to the general objects of the Corporation and the work which it will undertake.

We deal with a scheme which has been placed before us for the establishment of an Imperial Bank of Industry under a guarantee of the United Kingdom and certain Dominions and Colonies. We are unable to recommend the adoption of this scheme. In our opinion, the financial needs of British industry are likely in normal circumstances to receive better examination and to be met in a more elastic and effective manner under private banking enterprise than by means of a state-controlled institution.

We recognize that the satisfaction of the urgent demand which will arise after the war for capital for the reestablishment of industry on a peace basis will be profoundly affected by the policy of the Government in regard to taxation, the currency and the maintenance of the foreign exchanges, and we recommend that these matters should be the subject of early inquiry by the Treasury in consultation with representatives of banking and commerce. As a general rule we think it undesirable that the State should itself attempt to provide capital for industrial purposes.

We think that the existing control of capital issues should be relaxed as rapidly as circumstances permit, subject to further consideration as regards loans to foreign Governments or States.

In our opinion the remedy for the shortage of capital after the war must be sought mainly in the increase of production and saving. The attainment of these objects can be appreciably affected by the avoidance of unnecessary and wasteful expenditure by the State itself and by the extension of the taxation of luxuries.

The most important permanent instrument of taxation, both from the point of view of revenue and as regards its effect upon production and the scale of personal expenditure will, however, continue to be the Income Tax. We draw attention to the observations of the Special Committees upon the inadequacy of the allowance now allowed for depreciation and wear and tear of machinery and plant. We are of opinion that depreciation

should be allowed for Income Tax purposes on an adequate scale according to the circumstances of each case, and we recommend that immediate steps should be taken for this purpose by the Treasury. Having regard to the far-reaching effects of the tax at its present high level upon industrial reconstruction, we strongly urge that the principles upon which it is based should be fully reviewed at the earliest possible date, with a view to enabling the State to raise a revenue at least as large as at present with less individual hardship and less damage to productive industry. The inquiry should include consideration of the death duties.

CHAPTER IX

Fiscal Policy

Upon reconsideration of this problem as a whole in the light of the experience of the war, we lay down the following propositions as to the bases of future British economic policy in this connection:

1. Some Government action should be taken to promote and safeguard the development in the United Kingdom of industries of a special or "pivotal" character (i. e., industries on which other and larger branches of industrial production of substantial national importance are dependent), or which, whilst essential for munitions purposes, are not of sufficient commercial importance to ensure their development without such State assistance.

2. Some Government assistance should be given to industries, other than those mentioned above, which are important for the maintenance of the industrial position of the United Kingdom, where such assistance is proved to be necessary because of the inability of the industries to maintain or develop themselves by reason of undue foreign competition, inadequate supplies of raw materials, or any other causes.

3. A serious attempt should be made to meet the declared wishes of the Dominions and Colonies and of India for the readjustment and development of their economic relations with the United Kingdom.

4. An effort should also be made to develop trade between the British Empire and our Allies.

5. Subject to agreement with our Allies in the matter, present enemy countries should not, for a time at least, be allowed to carry on trade with the British Empire in the same unrestricted manner as before the war, or on terms equal to those accorded to Allies or Neutrals.

After dealing with the question of "dumping" (by which we understand the sale of goods in a particular market at prices lower than those at which the goods are currently offered in the country of manufacture), we discuss the proposal that these objects should be sought by the establishment of a comprehensive tariff scheme covering the whole range of imports into the United Kingdom; but for reasons briefly summarized below we do not think it necessary or expedient to adopt this proposal:

1. A claim for protection cannot, in our opinion, normally be regarded as valid, unless the industry which makes it can show that in spite of the adoption of the most efficient technical methods and business organization it cannot maintain itself against foreign competition or that it is hindered from adopting these methods by such competition.

2. There are some large branches of production, such as the main branches of the cotton trade, in which there is no demand for any measure of protection.

3. The primary object of State policy should be the development of industries of importance to the national security and well being, and any State action directed towards the indiscriminate maintenance of a number of industries which do not contribute appreciably or at all towards the increase of the national wealth would, we think, be economically unsound.

4. Any State action likely to raise prices, even temporarily, for any commodities of national importance, should be confined within the closest possible limits.

5. It is of paramount importance that our export trade should not be hampered by any policy, which might unduly increase the cost of production in this country, as compared with the cost in

other countries; and a more limited tariff could be used equally well, though not so extensively, for granting Imperial Preference and also for the purpose of negotiation with foreign countries. We direct attention to the expediency of considering measures of Imperial Preference other than the imposition of differential customs duties.

Fiscal Policy; Conclusions

Accordingly, the conclusions to which we come after examination in detail of the main considerations involved are:

1. The producers of this country are entitled to require from the Government that they should be protected in their home market against "dumping" as previously defined, and against the introduction of "sweated" goods, by which term we understand goods produced by labor which is not paid at trade union rates of wages, where such rates exist in the country of origin of the goods, or the current rates of that country where there are no trade union rates. We recommend that action be taken in regard to "dumping" on the lines (though not necessarily in the precise form) adopted in Canada.

2. Those industries which we have already described as "key" or "pivotal" should be maintained in this country at all hazards and at any expense.

3. As regards other industries, protection by means of customs duties or Government assistance in other forms should be afforded only to carefully selected branches of industry, which must be maintained either for reasons of national safety, or on the general ground that it is undesirable that any industry of real importance to our economic strength and well being should be allowed to be weakened by foreign competition, or brought to any serious extent under alien domination or control.

4. Preferential treatment should be accorded to the British Oversea Dominions and Possessions in respect of any customs duties now or hereafter to be imposed in the United Kingdom, and consideration should be given to other forms of Imperial preference.

5. As regards our commercial relations with our present Allies and neutrals, the denunciation of existing commercial treaties is unnecessary and inexpedient, but the present opportunity should be taken to endeavor to promote our trade with our Allies, and consideration should be given to the possibility of utilizing for purposes of negotiation with them and present neutrals of any duties which may be imposed in accordance with the principles laid down above.

In view of the danger that the admission of the principle of protection, even to a limited extent, may give rise to a widespread demand for similar assistance from other industries, and consequently to an amount of political pressure which it may be very difficult to resist, we further recommend that a strong and competent Board, with an independent status, should be established to examine into all applications from industries for State assistance, to advise His Majesty's Government upon such applications, and where a case is made out, to frame proposals as to the precise nature and extent of the assistance to be given. Before recommending tariff protection the Board should consider forms of State assistance other than, or concurrent with, protective duties, and it should have constantly in mind the safeguarding of the interests of consumers and of labor, and should make recommendations as to the conditions to be imposed for these purposes.

CHAPTER X

Weights and Measures

We have considered numerous suggestions for the alteration of our existing weights and measures, and in particular the proposal for the compulsory adoption in this country, after a short interval of notice, of the metric system. We are unable to recommend the adoption of this proposal. We are not satisfied that on the whole the metric system is theoretically superior to our present system. The main practical advantages claimed for the change are saving of time in education and the conduct of do-

mestic trade and the gain to our export trade resulting from international uniformity. Upon a review of the probable effects of the change upon British trade as a whole, we are satisfied that these results would not be obtained for a very long period, if ever. In our opinion an attempt to make the use of the metric system universal and obligatory in this country would cause great loss and confusion at a particularly inopportune moment for the sake of distant and doubtful advantages, and, so far from assisting in the reëstablishment of British trade after the war, would seriously hamper it.

We have also considered proposals for the simplification and decimalization of our existing weights and measures, but we do not think that compulsory legislation for this purpose would be expedient or would be likely to be effective at the present time. We recommend, however, that continued efforts should be made towards the simplification which has already taken place to a considerable extent in the teaching of weights and measures, and that Government Departments and other public authorities and trade organizations should bear constantly in mind the importance of promoting a corresponding simplification in the actual conduct of trade. We refer also to the importance, already widely recognized, of using decimal subdivisions of our basic units, and of replacing, wherever possible, the present hundredweight and ton by the cental of 100 pounds and the "short ton" of 2,000 pounds.

CHAPTER XI

Coinage

The proposals for the introduction of a decimal system of coinage are often closely connected with the question of weights and measures, but the decision must be settled upon somewhat different considerations. The change involves at least the alteration of the pound sterling or of the penny, and the majority of us are convinced that the advantages expected are insufficient to justify the risks which would be involved. We deal with

the main proposals placed before us which adopt as a basis either the existing penny or the pound sterling.

Amongst the former we have considered a scheme for the introduction of a British dollar of 100 half pennies. This scheme is open to the objections that it would involve the alteration of our existing silver currency and would actually diminish the extent of the uniformity which now prevails in regard to currency in the British Empire. The main considerations, however, by which we are led to reject this scheme, as well as other schemes which are based upon the retention of the penny is that, in our opinion, they all lead in fact to the abandonment of the sovereign as the standard and working unit of international exchange. Any such abandonment, even in name only, would, we think, be fraught with risks which it would be unwise to incur.

The proposal now supported by the Institute of Bankers, the Associated Chambers of Commerce, and the Decimal Association, is the decimalization of the sovereign which would consist of 1,000 mils, the mil being worth 4 per cent less than the existing farthing. While it would not promote either the unification of the existing coinage systems of the British Empire or the adoption of an international currency, the proposal offers considerable conveniences in account keeping, especially in the case of banks and large commercial firms. But apart from certain secondary objections, the crux of the question is the alteration of the value of the penny, and, having regard to the magnitude of the disturbance which this change would cause in the lives of the great body of wage earners, retail shopkeepers and their customers, we are satisfied that the introduction of such a change would be inexpedient at a time when the social, industrial, and financial organization of the country will be faced with numerous and exceptional difficulties.

APPENDIX C

THE COVENANT OF THE LEAGUE OF NATIONS

THE HIGH CONTRACTING PARTIES,

In order to promote international coöperation and to achieve international peace and security

- by the acceptance of obligations not to resort to war,
- by the prescription of open, just and honorable relations between nations,
- by the firm establishment of the understandings of international law as the actual rule of conduct among Governments, and
- by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organized peoples with one another,

Agree to this Covenant of the League of Nations.

ARTICLE I

The original Members of the League of Nations shall be those of the Signatories which are named in the Annex to this Covenant and also such of those other States named in the Annex as shall accede without reservation to this Covenant. Such accession shall be effected by a Declaration deposited with the Secretariat within two months of the coming into force of the Covenant. Notice thereof shall be sent to all other Members of the League.

Any fully self-governing State, Dominion or Colony not named in the Annex may become a Member of the League if its admission is agreed to by two-thirds of the Assembly, provided that it shall give effective guarantees of its sincere intention to observe its international obligations, and shall accept such regula-

tions as may be prescribed by the League in regard to its military, naval and air forces and armaments.

Any Member of the League may, after two years' notice of its intention so to do, withdraw from the League, provided that all its international obligations and all its obligations under this Covenant shall have been fulfilled at the time of its withdrawal.

ARTICLE 2

The action of the League under this Covenant shall be effected through the instrumentality of an Assembly and of a Council, with a permanent Secretariat.

ARTICLE 3

The Assembly shall consist of Representatives of the Members of the League.

The Assembly shall meet at stated intervals and from time to time as occasion may require at the Seat of the League or at such other place as may be decided upon.

The Assembly may deal at its meetings with any matter within the sphere of action of the League or affecting the peace of the world.

At meetings of the Assembly each Member of the League shall have one vote, and may have not more than three Representatives.

ARTICLE 4

The Council shall consist of Representatives of the Principal Allied and Associated Powers, together with Representatives of four other Members of the League. These four Members of the League shall be selected by the Assembly from time to time in its discretion. Until the appointment of the Representatives of the four Members of the League first selected by the Assembly, Representatives of Belgium, Brazil, Spain and Greece shall be members of the Council.

With the approval of the majority of the Assembly, the Council may name additional Members of the League whose Repre-

sentatives shall always be members of the Council; the Council with like approval may increase the number of Members of the League to be selected by the Assembly for representation on the Council.

The Council shall meet from time to time as occasion may require, and at least once a year, at the Seat of the League, or at such other place as may be decided upon.

The Council may deal at its meetings with any matter within the sphere of action of the League or affecting the peace of the world.

Any Member of the League not represented on the Council shall be invited to send a Representative to sit as a member at any meeting of the Council during the consideration of matters specially affecting the interests of that Member of the League.

At meetings of the Council, each Member of the League represented on the Council shall have one vote, and may have not more than one Representative.

ARTICLE 5

Except where otherwise expressly provided in this Covenant or by the terms of the present Treaty, decisions at any meeting of the Assembly or of the Council shall require the agreement of all the Members of the League represented at the meeting.

All matters of procedure at meetings of the Assembly or of the Council, including the appointment of Committees to investigate particular matters, shall be regulated by the Assembly or by the Council and may be decided by a majority of the Members of the League represented at the meeting.

The first meeting of the Assembly and the first meeting of the Council shall be summoned by the President of the United States of America.

ARTICLE 6

The permanent Secretariat shall be established at the Seat of the League. The Secretariat shall comprise a Secretary General and such secretaries and staff as may be required.

The first Secretary General shall be the person named in the Annex; thereafter the Secretary-General shall be appointed by the Council with the approval of the majority of the Assembly.

The secretaries and staff of the Secretariat shall be appointed by the Secretary-General with the approval of the Council.

The Secretary-General shall act in that capacity at all meetings of the Assembly and of the Council.

The expenses of the Secretariat shall be borne by the Members of the League in accordance with the apportionment of the expenses of the International Bureau of the Universal Postal Union.

ARTICLE 7

The Seat of the League is established at Geneva.

The Council may at any time decide that the Seat of the League shall be established elsewhere.

All positions under or in connection with the League, including the Secretariat, shall be open equally to men and women.

Representatives of the Members of the League and officials of the League when engaged on the business of the League shall enjoy diplomatic privileges and immunities.

The buildings and other property occupied by the League or its officials or by Representatives attending its meetings shall be inviolable.

ARTICLE 8

The Members of the League recognize that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.

The Council, taking account of the geographical situation and circumstances of each State, shall formulate plans for such reduction for the consideration and action of the several Governments.

Such plans shall be subject to reconsideration and revision at least every ten years.

After these plans shall have been adopted by the several

Governments, the limits of armaments therein fixed shall not be exceeded without the concurrence of the Council.

The Members of the League agree that the manufacture by private enterprise of munitions and implements of war is open to grave objections. The Council shall advise how the evil effects attendant upon such manufacture can be prevented, due regard being had to the necessities of those Members of the League which are not able to manufacture the munitions and implements of war necessary for their safety.

The Members of the League undertake to interchange full and frank information as to the scale of their armaments, their military, naval and air programs and the condition of such of their industries as are adaptable to war-like purposes.

ARTICLE 9

A permanent Commission shall be constituted to advise the Council on the execution of the provisions of Articles 1 and 8 and on military, naval and air questions generally.

ARTICLE 10

The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League. In case of any such aggression or in case of any threat or danger of such aggression the Council shall advise upon the means by which this obligation shall be fulfilled.

ARTICLE 11

Any war or threat of war, whether immediately affecting any of the Members of the League or not, is hereby declared a matter of concern to the whole League, and the League shall take any action that may be deemed wise and effectual to safeguard the peace of nations. In case any such emergency should arise the Secretary-General shall on the request of any Member of the League forthwith summon a meeting of the Council.

It is also declared to be the friendly right of each Member of the League to bring to the attention of the Assembly or of the Council any circumstance whatever affecting international relations which threatens to disturb international peace or the good understanding between nations upon which peace depends.

ARTICLE 12

The Members of the League agree that if there should arise between them any dispute likely to lead to a rupture, they will submit the matter either to arbitration or to inquiry by the Council, and they agree in no case to resort to war until three months after the award by the arbitrators or the report by the Council.

In any case under this Article the award of the arbitrators shall be made within a reasonable time, and the report of the Council shall be made within six months after the submission of the dispute.

ARTICLE 13

The Members of the League agree that whenever any dispute shall arise between them which they recognize to be suitable for submission to arbitration and which cannot be satisfactorily settled by diplomacy, they will submit the whole subject-matter to arbitration.

Disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact which if established would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration.

For the consideration of any such dispute the court of arbitration to which the case is referred shall be the Court agreed on by the parties to the dispute or stipulated in any convention existing between them.

The Members of the League agree that they will carry out in full good faith any award that may be rendered, and that they will not resort to war against a Member of the League which

complies therewith. In the event of any failure to carry out such an award the Council shall propose what steps should be taken to give effect thereto.

ARTICLE 14

The Council shall formulate and submit to the Members of the League for adoption plans for the establishment of a Permanent Court of International Justice. The Court shall be competent to hear and determine any dispute of an international character which the parties thereto submit to it. The Court may also give an advisory opinion upon any dispute or question referred to it by the Council or by the Assembly.

ARTICLE 15

If there should arise between Members of the League any dispute likely to lead to a rupture, which is not submitted to arbitration in accordance with Article 13, the Members of the League agree that they will submit the matter to the Council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the Secretary-General, who will make all necessary arrangements for a full investigation and consideration thereof.

For this purpose the parties to the dispute will communicate to the Secretary-General, as promptly as possible, statements of their case with all the relevant facts and papers, and the Council may forthwith direct the publication thereof.

The Council shall endeavor to effect a settlement of the dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding the dispute and the terms of settlement thereof as the Council may deem appropriate.

If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

Any Member of the League represented on the Council may make public a statement of the facts of the dispute and of its conclusions regarding the same.

If a report by the Council is unanimously agreed to by the members thereof other than the Representatives of one or more of the parties to the dispute, the Members of the League agree that they will not go to war with any party to the dispute which complies with the recommendations of the report.

If the Council fails to reach a report which is unanimously agreed to by the members thereof, other than the Representatives of one or more of the parties to the dispute, the Members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice.

If the dispute between the parties is claimed by one of them, and is found by the Council, to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the Council shall so report, and shall make no recommendation as to its settlement.

The Council may in any case under this Article refer the dispute to the Assembly. The dispute shall be so referred at the request of either party to the dispute, provided that such request be made within fourteen days after the submission of the dispute to the Council.

In any case referred to the Assembly, all the provisions of this Article and of Article 12 relating to the action and powers of the Council shall apply to the action and powers of the Assembly, provided that a report made by the Assembly, if concurred in by the Representatives of those Members of the League represented on the Council and of a majority of the other Members of the League, exclusive in each case of the Representatives of the parties to the dispute, shall have the same force as a report by the Council concurred in by all the members thereof other than the Representatives of one or more of the parties to the dispute.

ARTICLE 16

Should any Member of the League resort to war in disregard of its covenants under Articles 12, 13 or 15, it shall *ipso facto* be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a Member of the League or not.

It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military, naval or air force the Members of the League shall severally contribute to the armed forces to be used to protect the covenants of the League.

The Members of the League agree, further, that they will mutually support one another in the financial and economic measures which are taken under this Article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will take the necessary steps to afford passage through their territory to the forces of any of the Members of the League which are coöperating to protect the covenants of the League.

Any Member of the League which has violated any covenant of the League may be declared to be no longer a Member of the League by a vote of the Council concurred in by the Representatives of all the other Members of the League represented thereon.

ARTICLE 17

In the event of a dispute between a Member of the League and a State which is not a Member of the League, or between States

not Members of the League, the State or States not Members of the League shall be invited to accept the obligations of membership in the League for the purposes of such dispute, upon such conditions as the Council may deem just. If such invitation is accepted, the provisions of Articles 12 to 16 inclusive shall be applied with such modifications as may be deemed necessary by the Council.

Upon such invitation being given the Council shall immediately institute an inquiry into the circumstances of the dispute and recommend such action as may seem best and most effectual in the circumstances.

If a State so invited shall refuse to accept the obligations of membership in the League for the purposes of such dispute, and shall resort to war against a Member of the League, the provisions of Article 16 shall be applicable as against the State taking such action.

If both parties to the dispute when so invited refuse to accept the obligations of membership in the League for the purposes of such dispute, the Council may take such measures and make such recommendations as will prevent hostilities and will result in the settlement of the dispute.

ARTICLE 18

Every treaty or international engagement entered into hereafter by any Member of the League shall be forthwith registered with the Secretariat and shall as soon as possible be published by it. No such treaty or international engagement shall be binding until so registered.

ARTICLE 19

The Assembly may from time to time advise the reconsideration by Members of the League of treaties which have become inapplicable and the consideration of international conditions whose continuance might endanger the peace of the world.

ARTICLE 20

The Members of the League severally agree that this Covenant is accepted as abrogating all obligations or understandings *inter se* which are inconsistent with the terms thereof, and solemnly undertake that they will not hereafter enter into any engagements inconsistent with the terms thereof.

In case any Member of the League shall, before becoming a Member of the League, have undertaken any obligations inconsistent with the terms of this Covenant, it shall be the duty of such Member to take immediate steps to procure its release from such obligations.

ARTICLE 21

Nothing in this Covenant shall be deemed to affect the validity of international engagements, such as treaties of arbitration or regional understandings like the Monroe doctrine, for securing the maintenance of peace.

ARTICLE 22

To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the States which formerly governed them and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilization and that securities for the performance of this trust should be embodied in this Covenant.

The best method of giving practical effect to this principle is that the tutelage of such peoples should be entrusted to advanced nations who by reason of their resources, their experience or their geographical position can best undertake this responsibility, and who are willing to accept it, and that this tutelage should be exercised by them as Mandatories on behalf of the League.

The character of the mandate must differ according to the stage of the development of the people, the geographical situa-

tion of the territory, its economic conditions and other similar circumstances.

Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognized subject to the rendering of administrative advice and assistance by a Mandatory until such time as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the Mandatory.

Other peoples, especially those of Central Africa, are at such a stage that the Mandatory must be responsible for the administration of the territory under conditions which will guarantee freedom of conscience and religion, subject only to the maintenance of public order and morals, the prohibition of abuses such as the slave trade, the arms traffic and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases and of military training of the natives for other than police purposes and the defence of territory, and will also secure equal opportunities for the trade and commerce of other Members of the League.

There are territories, such as South-West Africa and certain of the South Pacific Islands, which, owing to the sparseness of their population, or their small size, or their remoteness from the centers of civilization, or their geographical contiguity to the territory of the Mandatory, and other circumstances, can be best administered under the laws of the Mandatory as integral portions of its territory, subject to the safeguards above mentioned in the interests of the indigenous population.

In every case of mandate, the Mandatory shall render to the Council an annual report in reference to the territory committed to its charge.

The degree of authority, control, or administration to be exercised by the Mandatory shall, if not previously agreed upon by the Members of the League, be explicitly defined in each case by the Council.

A permanent Commission shall be constituted to receive and examine the annual reports of the Mandatories and to advise

the Council on all matters relating to the observance of the mandates.

ARTICLE 23

Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League:

- (a) will endeavor to secure and maintain fair and humane conditions of labor for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organizations;
- (b) undertake to secure just treatment of the native inhabitants of territories under their control;
- (c) will entrust the League with the general supervision over the execution of agreements with regard to the traffic in women and children, and the traffic in opium and other dangerous drugs;
- (d) will entrust the League with the general supervision of the trade in arms and ammunition with the countries in which the control of this traffic is necessary in the common interest;
- (e) will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League. In this connection, the special necessities of the regions devastated during the war of 1914-1918 shall be borne in mind;
- (f) will endeavor to take steps in matters of international concern for the prevention and control of disease.

ARTICLE 24

There shall be placed under the direction of the League all international bureaux already established by general treaties if the parties to such treaties consent. All such international bureaux

and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the League.

In all matters of international interest which are regulated by general conventions but which are not placed under the control of international bureaux or commissions, the Secretariat of the League shall, subject to the consent of the Council and if desired by the parties, collect and distribute all relevant information and shall render any other assistance which may be necessary or desirable.

The Council may include as part of the expenses of the Secretariat the expenses of any bureau or commission which is placed under the direction of the League.

ARTICLE 25

The Members of the League agree to encourage and promote the establishment and coöperation of duly authorized voluntary national Red Cross organizations having as purposes the improvement of health, the prevention of disease and the mitigation of suffering throughout the world.

ARTICLE 26

Amendments to this Covenant will take effect when ratified by the Members of the League whose Representatives compose the Council and by a majority of the Members of the League whose Representatives compose the Assembly.

No such amendment shall bind any Member of the League which signifies its dissent therefrom, but in that case it shall cease to be a Member of the League.

ANNEX

I. ORIGINAL MEMBERS OF THE LEAGUE OF NATIONS SIGNATORIES OF THE TREATY OF PEACE

UNITED STATES OF AMERICA.	BOLIVIA.
BELGIUM.	BRAZIL.

BRITISH EMPIRE.

CANADA.
AUSTRALIA.
SOUTH AFRICA.
NEW ZEALAND.
INDIA.

CHINA.

CUBA.

ECUADOR.

FRANCE.

GREECE.

GUATEMALA.

HAITI.

HEDJAZ.

HONDURAS.

ITALY.

JAPAN.

LIBERIA.

NICARAGUA.

PANAMA.

PERU.

POLAND.

PORTUGAL.

ROUMANIA.

SERB-CROAT-SLOVENE STATE.

SIAM.

CZECHO-SLOVAKIA.

URUGUAY.

STATES INVITED TO ACCEDE TO THE COVENANT

ARGENTINE REPUBLIC.

CHILI.

COLOMBIA.

DENMARK.

NETHERLANDS.

NORWAY.

PARAGUAY.

PERSIA.

SALVADOR.

SPAIN.

SWEDEN.

SWITZERLAND.

VENEZUELA.

II. FIRST SECRETARY-GENERAL OF THE LEAGUE OF NATIONS

The Honorable Sir JAMES ERIC DRUMMOND, K.C.M.G., C.B.

APPENDIX D

Clauses in the Treaty of Peace with Germany which bear on Commerce and the Subjects treated in this Book.¹

TREATY OF PEACE WITH GERMANY

- PART I—THE COVENANT OF THE LEAGUE OF NATIONS
- PART II—BOUNDARIES OF GERMANY
- PART III—POLITICAL CLAUSES FOR EUROPE
- PART IV—GERMAN RIGHTS AND INTERESTS OUTSIDE GERMANY
- PART V—MILITARY, NAVAL AND AIR CLAUSES
- PART VI—PRISONERS OF WAR AND GRAVES
- PART VII—PENALTIES
- PART VIII—REPARATION

ANNEX III

I

Germany recognizes the right of the Allied and Associated Powers to the replacement, ton for ton (gross tonnage) and class for class, of all merchant ships and fishing boats lost or damaged owing to the war.

Nevertheless, and in spite of the fact that the tonnage of German shipping at present in existence is much less than that lost by the Allied and Associated Powers in consequence of the German aggression, the right thus recognized will be enforced on German ships and boats under the following conditions:

The German Government, on behalf of themselves and so as to bind all other persons interested, cede to the Allied and

¹ Titles of omitted main sections are given. Numbers of annexes and of paragraphs are not continuous owing to omission of irrelevant material.

Associated Governments the property in all the German merchant ships which are of 1,600 tons gross and upwards; in one-half, reckoned in tonnage, of the ships which are between 1,000 tons and 1,600 tons gross; in one-quarter, reckoned in tonnage, of the steam trawlers; and in one quarter, reckoned in tonnage, of the other fishing boats.

9

Germany waives all claims to vessels or cargoes sunk by or in consequence of naval action and subsequently salvaged, in which any of the Allied or Associated Governments or their nationals may have any interest either as owners, charterers, insurers or otherwise, notwithstanding any decree of condemnation which may have been made by a Prize Court of Germany or of her allies.

ANNEX IV

I

The Allied and Associated Powers require, and Germany undertakes, that in part satisfaction of her obligations expressed in the present Part she will, as hereinafter provided, devote her economic resources directly to the physical restoration of the invaded areas of the Allied and Associated Powers, to the extent that these Powers may determine.

2

The Allied and Associated Governments may file with the Reparation Commission lists showing:

(a) Animals, machinery, equipment, tools and like articles of a commercial character, which have been seized, consumed or destroyed by Germany or destroyed in direct consequence of military operations, and which such Governments, for the purpose of meeting immediate and urgent needs, desire to have replaced by animals and articles of the same nature which are in being in German territory at the date of the coming into force of the present Treaty;

(b) Reconstruction materials (stones, bricks, refractory bricks, tiles, wood, window-glass, steel, lime, cement, etc.), machinery, heating apparatus, furniture and like articles of a commercial character which the said Governments desire to have produced and manufactured in Germany and delivered to them to permit of the restoration of the invaded areas.

4

Immediately upon the filing of such lists with the Commission the Commission shall consider the amount and number of the materials and animals mentioned in the lists provided for above which are to be required of Germany. In reaching a decision on this matter the Commission shall take into account such domestic requirements of Germany as it deems essential for the maintenance of Germany's social and economic life, the prices and dates at which similar articles can be obtained in the Allied and Associated countries as compared with those to be fixed for German articles, and the general interest of the Allied and Associated Governments that the industrial life of Germany be not so disorganized as to affect adversely the ability of Germany to perform the other acts of reparation stipulated for.

Machinery, equipment, tools and like articles of a commercial character in actual industrial use are not, however, to be demanded of Germany unless there is no free stock of such articles respectively which is not in use and is available, and then not in excess of thirty per cent of the quantity of such articles in use in any one establishment or undertaking.

The Commission shall give representatives of the German Government an opportunity and a time to be heard as to their capacity to furnish the said materials, articles and animals.

The decision of the Commission shall thereupon and at the earliest possible moment be communicated to the German Government and to the several interested Allied and Associated Governments.

The German Government undertakes to deliver the materials, articles and animals as specified in the said communication, and

the interested Allied and Associated Governments severally agree to accept the same, provided they conform to the specification given, or are not, in the judgment of the Commission, unfit to be utilized in the work of reparation.

ANNEX V

I

Germany accords the following options for the delivery of coal and derivatives of coal to the undermentioned signatories of the present Treaty.

2

Germany undertakes to deliver to France seven million tons of coal per year for ten years. In addition, Germany undertakes to deliver to France annually for a period not exceeding ten years an amount of coal equal to the difference between the annual production before the war of the coal mines of the Nord and Pas de Calais, destroyed as a result of the war, and the production of the mines of the same area during the years in question: such delivery not to exceed twenty million tons in any one year of the first five years, and eight million tons in any one year of the succeeding five years.

It is understood that due diligence will be exercised in the restoration of the destroyed mines in the Nord and the Pas de Calais.

3

Germany undertakes to deliver to Belgium eight million tons of coal annually for ten years.

4

Germany undertakes to deliver to Italy up to the following quantities of coal:

July 1919 to June 1920.....	4½ million tons,
“ 1920 “ 1921.....	6 “ “
“ 1921 “ 1922.....	7½ “ “
“ 1922 “ 1923.....	8 “ “
“ 1923 “ 1924.....	} 8½ “ “
and each of the following five years....	

At least two-thirds of the actual deliveries to be land-borne.

5

Germany further undertakes to deliver annually to Luxemburg, if directed by the Reparation Commission, a quantity of coal equal to the pre-war annual consumption of German coal in Luxemburg.

8

Germany undertakes to deliver to France, and to transport to the French frontier by rail or by water, the following products, during each of the three years following the coming into force of this Treaty:

Benzol	35,000 tons
Coal tar	50,000 tons
Sulphate of ammonia	30,000 tons

All or part of the coal tar may, at the option of the French Government, be replaced by corresponding quantities of products of distillation, such as light oils, heavy oils, anthracene, naphthalene or pitch.

ANNEX VI

I

Germany accords to the Reparation Commission an option to require as part of reparation the delivery by Germany of such quantities and kinds of dyestuffs and chemical drugs as the Commission may designate, not exceeding 50 per cent of the

total stock of each and every kind of dyestuff and chemical drug in Germany or under German control at the date of the coming into force of the present Treaty.

This option shall be exercised within sixty days of the receipt by the Commission of such particulars as to stocks as may be considered necessary by the Commission.

2

Germany further accords to the Reparation Commission an option to require delivery during the period from the date of the coming into force of the present Treaty until January 1, 1920, and during each period of six months thereafter until January 1, 1925, of any specified kind of dyestuff and chemical drug up to an amount not exceeding 25 per cent of the German production of such dyestuffs and chemical drugs during the previous six months period. If in any case the production during such previous six months was, in the opinion of the Commission, less than normal, the amount required may be 25 per cent of the normal production.

PART IX—FINANCIAL CLAUSES

ARTICLE 258

Germany renounces all rights accorded to her or her nationals by treaties, conventions or agreements, of whatsoever kind, to representation upon or participation in the control or administration of commissions, state banks, agencies or other financial or economic organizations of an international character, exercising powers of control or administration, and operating in any of the Allied or Associated States, or in Austria, Hungary, Bulgaria or Turkey, or in the dependencies of these States, or in the former Russian Empire.

PART X—ECONOMIC CLAUSES

SECTION I—COMMERCIAL RELATIONS

Chapter I—Customs Regulations, Duties and Restrictions

ARTICLE 264

Germany undertakes that goods the produce or manufacture of any one of the Allied or Associated States imported into German territory, from whatsoever place arriving, shall not be subjected to other or higher duties or charges (including internal charges) than those to which the like goods the produce or manufacture of any other such State or of any other foreign country are subject.

Germany will not maintain or impose any prohibition or restriction on the importation into German territory of any goods the produce or manufacture of the territories of any one of the Allied or Associated States, from whatsoever place arriving, which shall not equally extend to the importation of the like goods the produce or manufacture of any other such State or of any other foreign country.

ARTICLE 265

Germany further undertakes that, in the matter of the régime applicable on importation, no discrimination against the commerce of any of the Allied and Associated States as compared with any other of the said States or any other foreign country shall be made, even by indirect means, such as customs regulations or procedure, methods of verification or analysis, conditions of payment of duties, tariff classification or interpretation, or the operation of monopolies.

ARTICLE 266

In all that concerns exportation Germany undertakes that goods, natural products or manufactured articles, exported from

German territory to the territories of any one of the Allied or Associated States shall not be subjected to other or higher duties or charges (including internal charges) than those paid on the like goods exported to any other such State or to any other foreign country.

Germany will not maintain or impose any prohibition or restriction on the exportation of any goods sent from her territory to any one of the Allied or Associated States which shall not equally extend to the exportation of the like goods, natural products or manufactured articles, sent to any other such State or to any other foreign country.

ARTICLE 267

Every favor, immunity or privilege in regard to the importation, exportation or transit of goods granted by Germany to any Allied or Associated State or to any other foreign country whatever shall simultaneously and unconditionally, without request and without compensation, be extended to all the Allied and Associated States.

ARTICLE 268

The provisions of Articles 264 to 267 inclusive of this Chapter and of Article 323 of Part XII (Ports, Waterways and Railways) of the present Treaty are subject to the following exceptions:

(a) For a period of five years from the coming into force of the present Treaty, natural or manufactured products which both originate in and come from the territories of Alsace and Lorraine reunited to France shall, on importation into German customs territory, be exempt from all customs duty.

The French Government shall fix each year, by decree communicated to the German Government, the nature and amount of the products which shall enjoy this exemption.

The amount of each product which may be thus sent annually into Germany shall not exceed the average of the amounts sent annually in the years 1911-1913.

Further, during the period above mentioned the German Government shall allow the free export from Germany, and the free re-importation into Germany, exempt from all customs duties and other charges (including internal charges), of yarns, tissues, and other textile materials or textile products of any kind and in any condition, sent from Germany into the territories of Alsace or Lorraine, to be subjected there to any finishing process, such as bleaching, dyeing, printing, mercerization, gassing, twisting or dressing.

(b) During a period of three years from the coming into force of the present Treaty natural or manufactured products which both originate in and come from Polish territories which before the war were part of Germany shall, on importation into German customs territory, be exempt from all customs duty.

The Polish Government shall fix each year, by decree communicated to the German Government, the nature and amount of the products which shall enjoy this exemption.

The amount of each product which may be thus sent annually into Germany shall not exceed the average of the amounts sent annually in the years 1911-1913.

ARTICLE 269

During the first six months after the coming into force of the present Treaty, the duties imposed by Germany on imports from Allied and Associated States shall not be higher than the most favorable duties which were applied to imports into Germany on July 31, 1914.

During a further period of thirty months after the expiration of the first six months, this provision shall continue to be applied exclusively with regard to products which, being comprised in Section A of the First Category of the German Customs Tariff of December 25, 1902, enjoyed at the above-mentioned date (July 31, 1914) rates conventionalized by treaties with the Allied and Associated Powers, with the addition of all kinds of wine and vegetable oils, of artificial silk and of washed or

scoured wool, whether or not they were the subject of special conventions before July 31, 1914.

ARTICLE 270

The Allied and Associated Powers reserve the right to apply to German territory occupied by their troops a special customs régime as regards imports and exports, in the event of such a measure being necessary in their opinion in order to safeguard the economic interests of the population of these territories.

Chapter 2—Shipping

ARTICLE 271

As regards sea fishing, maritime coasting trade, and maritime towage, vessels of the Allied and Associated Powers shall enjoy, in German territorial waters, the treatment accorded to vessels of the most favored nation.

ARTICLE 272

Germany agrees that, notwithstanding any stipulation to the contrary contained in the Conventions relating to the North Sea fisheries and liquor traffic, all rights of inspection and police shall, in the case of fishing-boats of the Allied Powers, be exercised solely by ships belonging to those Powers.

Chapter 3—Unfair Competition

ARTICLE 274

Germany undertakes to adopt all the necessary legislative and administrative measures to protect goods the produce or manufacture of any one of the Allied and Associated Powers from all forms of unfair competition in commercial transactions.

Germany undertakes to prohibit and repress by seizure and

by other appropriate remedies the importation, exportation, manufacture, distribution, sale or offering for sale in its territory of all goods bearing upon themselves or their usual get-up or wrappings any marks, names, devices, or description whatsoever which are calculated to convey directly or indirectly a false indication of the origin, type, nature, or special characteristics of such goods.

Chapter 4—Treatment of Nationals of Allied and Associated Powers

ARTICLE 276

Germany undertakes:

(a) Not to subject the nationals of the Allied and Associated Powers to any prohibition in regard to the exercise of occupations, professions, trade and industry, which shall not be equally applicable to all aliens without exception;

(b) Not to subject the nationals of the Allied and Associated Powers in regard to the rights referred to in paragraph (a) to any regulation or restriction which might contravene directly or indirectly the stipulations of the said paragraph, or which shall be other or more disadvantageous than those which are applicable to nationals of the most favored nation;

(c) Not to subject the nationals of the Allied and Associated Powers, their property, rights or interests, including companies and associations in which they are interested, to any charge, tax or impost, direct or indirect, other or higher than those which are or may be imposed on her own nationals or their property, rights or interests;

(d) Not to subject the nationals of any one of the Allied and Associated Powers to any restriction which was not applicable on July 1, 1914, to the nationals of such Powers unless such restriction is likewise imposed on her own nationals.

Chapter 5—General Articles

ARTICLE 280

The obligations imposed on Germany by Chapter I and by Articles 271 and 272 of Chapter II above shall cease to have effect five years from the date of the coming into force of the present Treaty, unless otherwise provided in the text, or unless the Council of the League of Nations shall, at least twelve months before the expiration of that period, decide that these obligations shall be maintained for a further period with or without amendment.

Article 276 of Chapter IV shall remain in operation, with or without amendment, after the period of five years for such further period, if any, not exceeding five years, as may be determined by a majority of the Council of the League of Nations.

ARTICLE 281

If the German Government engages in international trade, it shall not in respect thereof have or be deemed to have any rights, privileges or immunities of sovereignty.

SECTION 4—PROPERTY, RIGHTS AND INTERESTS

ANNEX IV

All property, rights and interests of German nationals within the territory of any Allied or Associated Power and the net proceeds of their sale, liquidation or other dealing therewith may be charged by that Allied or Associated Power in the first place with payment of amounts due in respect of claims by the nationals of that Allied or Associated Power with regard to their property, rights and interests, including companies and associations in which they are interested, in German territory, or debts owing to them by German nationals, and with payment of claims growing out of acts committed by the German Government or by any German authorities since July 31, 1914.

PART XI—AERIAL NAVIGATION

PART XII—PORTS, WATERWAYS AND RAILWAYS

SECTION I—GENERAL PROVISIONS

ARTICLE 321

Germany undertakes to grant freedom of transit through her territories on the routes most convenient for international transit, either by rail, navigable waterway, or canal, to persons, goods, vessels, carriages, wagons and mails coming from or going to the territories of any of the Allied and Associated Powers (whether contiguous or not); for this purpose the crossing of territorial waters shall be allowed. Such persons, goods, vessels, carriages, wagons and mails shall not be subjected to any transit duty or to any undue delays or restrictions, and shall be entitled in Germany to national treatment as regards charges, facilities and all other matters.

Goods in transit shall be exempt from all Customs or other similar duties.

All charges imposed on transport in transit shall be reasonable, having regard to the conditions of the traffic. No charge, facility or restriction shall depend directly or indirectly on the ownership or on the nationality of the ship or other means of transport on which any part of the through journey has been, or is to be, accomplished.

ARTICLE 323

Germany undertakes to make no discrimination or preference, direct or indirect, in the duties, charges and prohibitions relating to importations into or exportations from her territories, or, subject to the special engagements contained in the present Treaty, in the charges and conditions of transport of goods or persons entering or leaving her territories, based on the fron-

tier crossed; or on the kind, ownership or flag of the means of transport (including aircraft) employed; or on the original or immediate place of departure of the vessel, wagon or aircraft or other means of transport employed, or its ultimate or intermediate destination; or on the route of or places of transshipment on the journey; or on whether any port through which the goods are imported or exported is a German port or a port belonging to any foreign country or on whether the goods are imported or exported by sea, by land or by air.

Germany particularly undertakes not to establish against the ports and vessels of any of the Allied and Associated Powers any surtax or any direct or indirect bounty for export or import by German ports or vessels, or by those of another Power, for example by means of combined tariffs. She further undertakes that persons or goods passing through a port or using a vessel of any of the Allied and Associated Powers shall not be subjected to any formality or delay whatever to which such persons or goods would not be subjected if they passed through a German port or a port of any other Power, or used a German vessel or a vessel of any other Power.

ARTICLE 324

All necessary administrative and technical measures shall be taken to shorten, as much as possible, the transmission of goods across the German frontiers and to ensure their forwarding and transport from such frontiers, irrespective of whether such goods are coming from or going to the territories of the Allied and Associated Powers or are in transit from or to those territories, under the same material conditions in such matters as rapidity of carriage and care en route as are enjoyed by other goods of the same kind carried on German territory under similar conditions of transport.

In particular, the transport of perishable goods shall be promptly and regularly carried out, and the customs formalities shall be effected in such a way as to allow the goods to be carried straight through by trains which make connection.

ARTICLE 325

The seaports of the Allied and Associated Powers are entitled to all favors and to all reduced tariffs granted on German railways or navigable waterways for the benefit of German ports or of any port of another Power.

ARTICLE 326

Germany may not refuse to participate in the tariffs or combinations of tariffs intended to secure for ports of any of the Allied and Associated Powers advantages similar to those granted by Germany to her own ports or the ports of any other Power.

SECTION 2—NAVIGATION

Chapter 1—Freedom of Navigation

ARTICLE 327

The nationals of any of the Allied and Associated Powers as well as their vessels and property shall enjoy in all German ports and on the inland navigation routes of Germany the same treatment in all respects as German nationals, vessels and property.

In particular the vessels of any one of the Allied or Associated Powers shall be entitled to transport goods of any description, and passengers, to or from any ports or places in German territory to which German vessels may have access, under conditions which shall not be more onerous than those applied in the case of national vessels; they shall be treated on a footing of equality with national vessels as regards port and harbor facilities and charges of every description, including facilities for stationing, loading and unloading, and duties and charges of tonnage, harbor, pilotage, lighthouse, quarantine, and all analogous duties and charges of whatsoever nature, levied in the name of or for the profit of the Government, public func-

tionaries, private individuals, corporations or establishments of any kind.

In the event of Germany granting a preferential régime to any of the Allied or Associated Powers or to any other foreign Power, this régime shall be extended immediately and unconditionally to all the Allied and Associated Powers.

There shall be no impediment to the movement of persons or vessels other than those arising from prescriptions concerning customs, police, sanitation, emigration and immigration, and those relating to the import and export of prohibited goods. Such regulations must be reasonable and uniform and must not impede traffic unnecessarily.

Chapter 2—Free Zones in Ports

ARTICLE 328

The free zones existing in German ports on August 1, 1914, shall be maintained. These free zones, and any other free zones which may be established in German territory by the present Treaty, shall be subject to the régime provided for in the following Articles.

Goods entering or leaving a free zone shall not be subjected to any import or export duty, other than those provided for in Article 330.

Vessels and goods entering a free zone may be subjected to the charges established to cover expenses of administration, upkeep and improvement of the port, as well as to the charges for the use of various installations, provided that these charges shall be reasonable having regard to the expenditure incurred, and shall be levied in the conditions of equality provided for in Article 327.

Goods shall not be subjected to any other charge except a statistical duty which shall not exceed 1 per mille *ad valorem*, and which shall be devoted exclusively to defraying the expenses of compiling statements of the traffic in the port.

ARTICLE 329

The facilities granted for the erection of warehouses, for packing and for unpacking goods, shall be in accordance with trade requirements for the time being. All goods allowed to be consumed in the free zone shall be exempt from duty, whether of excise or of any other description, apart from the statistical duty provided for in Article 328 above.

There shall be no discrimination in regard to any of the provisions of the present Article between persons belonging to different nationalities or between goods of different origin or destination.

ARTICLE 330

Import duties may be levied on goods leaving the free zone for consumption in the country on the territory of which the port is situated. Conversely, export duties may be levied on goods coming from such country and brought into the free zone. These import and export duties shall be levied on the same basis and at the same rates as similar duties levied at the other Customs frontiers of the country concerned. On the other hand, Germany shall not levy, under any denomination, any import, export or transit duty on goods carried by land or water across her territory to or from the free zone from or to any other State.

Germany shall draw up the necessary regulations to secure and guarantee such freedom of transit over such railways and waterways in her territory as normally give access to the free zone.

SECTION 3—RAILWAYS

Chapter 1—Clauses Relating to International Transport

ARTICLE 365

Goods coming from the territories of the Allied and Associated Powers, and going to Germany, or in transit through Germany from or to the territories of the Allied and Associated

Powers, shall enjoy on the German railways as regards charges to be collected (rebates and drawbacks being taken into account), facilities, and all other matters, the most favorable treatment applied to goods of the same kind carried on any German lines, either in internal traffic, or for export, import or in transit, under similar conditions of transport, for example as regards length of route. The same rule shall be applied, on the request of one or more of the Allied and Associated Powers, to goods specially designated by such Power or Powers coming from Germany and going to their territories.

International tariffs established in accordance with the rates referred to in the preceding paragraph and involving through waybills shall be established when one of the Allied and Associated Powers shall require it from Germany.

ARTICLE 367

Germany shall be bound to coöperate in the establishment of through ticket services (for passengers and their luggage) which shall be required by any of the Allied and Associated Powers to ensure their communication by rail with each other and with all other countries by transit across the territories of Germany; in particular Germany shall, for this purpose, accept trains and carriages coming from the territories of the Allied and Associated Powers and shall forward them with a speed at least equal to that of her best long-distance trains on the same lines. The rates applicable to such through services shall not in any case be higher than the rates collected on German internal services for the same distance, under the same conditions of speed and comfort.

The tariffs applicable under the same conditions of speed and comfort to the transportation of emigrants going to or coming from ports of the Allied and Associated Powers and using the German railways shall not be at a higher kilometric rate than the most favorable tariffs (drawbacks and rebates being taken into account) enjoyed on the said railways by emigrants going to or coming from any other ports.

ARTICLE 368

Germany shall not apply specially to such through services, or to the transportation of emigrants going to or coming from the ports of the Allied and Associated Powers, any technical, fiscal or administrative measures, such as measures of customs examination, general police, sanitary police, and control, the result of which would be to impede or delay such services.

ARTICLE 369

In case of transport partly by rail and partly by internal navigation, with or without through way-bill, the preceding Articles shall apply to the part of the journey performed by rail.

PART XIII—LABOR

SECTION I—ORGANIZATION OF LABOR

Whereas the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice;

And whereas conditions of labor exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperiled; and an improvement of those conditions is urgently required: as, for example, by the regulation of the hours of work, including the establishment of a maximum working day and week, the regulation of the labor supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of his employment, the protection of children, young persons and women, provision for old age and injury, protection of the interests of workers when employed in countries other than their own, recognition of the principle of freedom of association, the organization of vocational and technical education and other measures;

Whereas also the failure of any nation to adopt humane conditions of labor is an obstacle in the way of other nations which desire to improve the conditions in their own countries;

THE HIGH CONTRACTING PARTIES, moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world, agree to the following:

Chapter 1—Organization

ARTICLE 387

A permanent organization is hereby established for the promotion of the objects set forth in the Preamble.

The original Members of the League of Nations shall be the original Members of this organization, and hereafter membership of the League of Nations shall carry with it membership of the said organization.

ARTICLE 388

The permanent organization shall consist of:

- (1) a General Conference of Representatives of the Members and,
- (2) an International Labor Office controlled by the Governing Body described in Article 393.

SECTION 2—GENERAL PRINCIPLES

ARTICLE 427

The High Contracting Parties, recognizing that the well-being, physical, moral and intellectual, of industrial wage-earners is of supreme international importance, have framed, in order to further this great end the permanent machinery provided for in Section I and associated with that of the League of Nations.

They recognize that differences of climate, habits and customs, of economic opportunity and industrial tradition, make strict uniformity in the conditions of labor difficult of immediate at-

tainment. But, holding as they do, that labor should not be regarded merely as an article of commerce, they think that there are methods and principles for regulating labor conditions which all industrial communities should endeavor to apply, so far as their special circumstances will permit.

Among these methods and principles, the following seem to the High Contracting Parties to be of special and urgent importance:

First.—The guiding principle above enunciated that labor should not be regarded merely as a commodity or article of commerce.

Second.—The right of associations for all lawful purposes by the employed as well as by the employers.

Third.—The payment to the employed of a wage adequate to maintain a reasonable standard of life as this is understood in their time and country.

Fourth.—The adoption of an eight hour day or a forty-eight hour week as the standard to be aimed at where it has not already been attained.

Fifth.—The adoption of a weekly rest of at least twenty-four hours, which should include Sunday wherever practicable.

Sixth.—The abolition of child labor and the imposition of such limitations on the labor of young persons as shall permit the continuation of their education and assure their proper physical development.

Seventh.—The principle that men and women should receive equal remuneration for work of equal value.

Eighth.—The standard set by law in each country with respect to the conditions of labor should have due regard to the equitable economic treatment of all workers lawfully resident therein.

Ninth.—Each State should make provision for a system of inspection in which women should take part, in order to ensure the enforcement of the laws and regulations for the protection of the employed.

Without claiming that these methods and principles are either complete or final, the High Contracting Parties are of opinion

that they are well fitted to guide the policy of the League of Nations; and that, if adopted by the industrial communities who are members of the League, and safeguarded in practice by an adequate system of such inspection, they will confer lasting benefits upon the wage-earners of the world.

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